



**GLOSSARY OF TERMS
FOR
AGRICULTURAL INSURANCE
AND
RURAL FINANCE**

FAO AGRICULTURAL SERVICES BULLETIN

100

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INTRODUCTION

This glossary is written for researchers, teachers and practitioners in the active fields of rural finance and agricultural insurance. It is almost impossible to "author" a glossary. Many people have contributed to both the agricultural insurance section and to the section on rural finance. Indeed, the number who have done so, directly or indirectly, is really too great to mention here, but the principal compilers of the present publication, whose efforts are acknowledged with thanks, are:

Agricultural insurance: Fiona Walker
 William Dick
 Julian Roberts

Rural finance: Richard Meyer
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It is hoped that publication of this Glossary will assist in facilitating dialogue and comparisons between systems in various countries operating these financial services.

The Glossary is in two sections: agricultural insurance and rural finance respectively.

Readers are invited to contact FAO with comments and suggestions which could be incorporated in any future edition of this publication.

H. de Haen
Assistant Director-General
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AGRICULTURAL INSURANCE

Accident

An unplanned event, unexpected and undesigned, which occurs suddenly and at a definite place.

Accumulation

The concentration of similar risks in a particular area such that an insured event may result in several losses occurring at the same time.

Act of God

An event arising from natural causes without human intervention and which could not have been prevented through reasonable care or foresight, e.g. floods, earthquakes, windstorm.

Actuarial

Describes the calculations made by an actuary. Essentially this is a branch of statistics, dealing with the probabilities of an event occurring. Actuarial calculations, if they are to be at all accurate, require basic data over a sufficient time period to permit likelihood of future events to be predicted with a degree of certainty.

Actuary

A person with a mathematical and statistical background who is responsible for the application of probability and statistical concepts to insurance aspects such as rating, premium, reserves and dividend calculations.

Addendum

A document explaining changes to an existing insurance or reinsurance contract.

Adjustment

1) The calculation of a variable premium. 2) The calculation of a loss.

Adverse selection

The tendency of individuals with poorer-than-average risks to buy and maintain insurance. Adverse selection arises when insureds select only those coverages which are most likely to result in losses. In agricultural insurance, this can arise when:

- high-risk farmers or farmers using backward practices participate, while other farmers, with more certain production expectations, do not;
- farmers apply for insurance only on their own high-risk crops or plots, withholding other units.

Agent

1) A person acting on someone else's behalf. 2) A person who introduces buyers of insurance to insurers.

Aggravated risk

A risk that presents an unfavourable feature from an insurance point of view, for example a crop with a low germination rate.

Aggregate excess of loss reinsurance

A form of stop loss reinsurance, providing cover on an excess of loss basis, where the claims in aggregate exceed an agreed sum. For example, a treaty may cover annual losses of \$1,000,000 in excess of \$1,000,000. This means that the reinsured pays the first \$1,000,000 of losses, then the reinsurer pays the next \$1,000,000 up to \$2,000,000. Any losses over \$2,000,000 revert to the reinsured.

Aggregate limit of indemnity

The maximum amount an insurer will pay out under a policy during a defined period of insurance for all losses that may occur.

Aggregate stop loss reinsurance

Reinsurance that pays in excess of an agreed amount in respect of all claims from the reinsured's whole portfolio for a given class of business.

Aggregation

A clause in an excess of loss reinsurance policy which allows the costs of successive claims to be summed in order to calculate the total amount recoverable.

Agreed returns

Premium which is returned to the insured in accordance with the terms set out in the policy.

Agricultural insurance

Insurance applied to agricultural enterprises. Types of business include crop insurance, livestock insurance, aquacultural insurance and forestry, but normally excludes building and equipment insurance although these may be insured by the same insurer under a different policy (See aquacultural insurance, crop insurance, livestock insurance).

All risk insurance

A term used to describe a policy which covers the insured property against any fortuitous cause including acts of God, accident, disease, fire, theft and pilferages. In agricultural insurance, all risks policies may cover all weather risks, fire, theft etc. It excludes those perils defined in the policy and inevitabilities such as wear and tear or depreciation.

Amortisation

The writing off over time of part of the value of an asset until the value of that asset is reduced to zero.

Annuity

The sum paid either via a series of regular payments or by a contract providing an income for a defined period of time.

Anti-selection

Same as adverse selection.

Apportionment

The division of an amount into agreed proportions.

Aquacultural insurance

Protection for fresh water and salt water fish farming enterprises against mortality to fish stocks.

Arbitration

Settlement of a dispute between parties involved in the insurance; usually between the insurer and the insured.

Arbitration clause

A provision in a policy stating that any differences between the insurer and the insured shall be settled by arbitration. Each party shall appoint an arbitrator and these shall select a neutral umpire.

Arbitrator

A person appointed by an insurer or insured to help settle a dispute between them.

Area approach (area-yield basis)

An agriculturally homogeneous area that can be insured as one unit. This unit may comprise several blocks of land farmed by the same farmer or different farms farmed by different farmers. For loss adjustment in this approach, the actual average yield is assessed by sample survey through crop cutting or other methods, and compared with the normal (insured) yield. The average yield loss is applied to all land of all farmers within the defined area, disregarding individual differences in actual damage and crop yield.

Assessor

A person appointed to assess and settle any claim made under an insurance policy. (See loss adjuster).

Assigned risk

The term used for a risk which insurers are unwilling to accept of their own accord, but are compelled to do so by law.

Assurance

Same as insurance. Usually applied to life and marine policies and not to agricultural insurance.

Assured

Same as insured. Usually applied to life and marine policies.

Assurer

Same as insurer. Usually applied to life and marine policies.

Attachment

The commencement of an insurance policy i.e. start of insurance coverage.

Average

If the property value has been under-insured, then the insured's claim for a loss is reduced proportionately to the undervaluation.

Award

An arbitrator's decision.

Base premium

A ceding company's premiums to which the premium rate for reinsurance is applied.

Base value

The value of the insured subject matter at the commencement of cover.

Basis of valuation

The basis on which the potential insured property is valued, the established value being used to determine the Total Sum Insured. In crop insurance policies, often the basis of valuation is the production costs of growing the crop.

Binder

1) The authority given by an underwriter to an agent to accept business on the underwriter's behalf. 2) In the US the term may be used to describe temporary cover issued by an insurer or reinsurer.

Binding authority

Authority given by an underwriter to an agent to grant cover on behalf of the underwriter.

Blanket policy

A policy in which a single sum insured covers a number of individual items, for example, several buildings in a fire policy, or a glasshouse plus its contents, including crops and production equipment.

Blanket rate

A rate applied to a number of insured items, which could each have been rated individually.

Bonus

(See no claims bonus)

Bordereau

There are two types of bordereau, one for premiums and one showing details of losses. Both are submitted to insurers/reinsurers at regular intervals. 1) The premium bordereau gives details of the insureds, sum insureds, location of risks and premium rates. 2) The loss bordereau provides such details as date of occurrence of insured peril, date and amount of claim, amounts paid and amounts outstanding.

Broker

(See insurance broker). A person responsible for introducing business to the insurer and representing the insured. A broker is remunerated by means of a share of the premium.

Brokerage

The commission due to the broker.

Burning cost

Burning cost is a term used in excess of loss reinsurance to describe the amount of claims paid above the excess level, expressed as a percentage of the total premium.

Business interruption insurance

The insurance of losses resulting from unforeseen circumstances which reduce the output, both physical and financial of a business. Business interruption policies may be used for the insurance of agricultural processors, and may cover, for example, any shortfall in delivery to the processing plant of the crop to be processed.

Cancellation

The termination of a policy by mutual consent.

Capacity

The maximum amount of insurance or reinsurance that the insurer, reinsurer or insurance market will accept.

Captive insurance company

An insurance company established and owned by large industrial or commercial groups, or by trade, professional and other associations, to write primarily the insurance's of their parent, subsidiaries, affiliates or associates.

Catastrophe

A severe, sudden and unexpected disaster which results in heavy losses.

Catastrophe reinsurance

Reinsurance designed to protect an insurer against accumulation of losses which could arise from occurrence of a catastrophic event such as an earthquake. Often applied to excess of loss reinsurance.

Cede

To purchase reinsurance.

Ceding company

A direct insurer who places all or part of an original risk on a reinsurer.

Claim

The application for indemnity (payment) after an insured event has occurred.

Claims adjuster

One who verifies a claim and negotiates its settlement for the insurer. (See Loss Adjuster).

Claims expenses

The expenses incurred by the claims adjuster whilst investigating and settling a claim.

Clause

A section of a policy wording.

Co-insurance

1) The situation where the insured is liable for part of each and every loss, which is often expressed as a percentage of the sum insured. 2) When several insurers each cover part of a risk. 3) In the US co-insurance is used to describe the situation where reinsurance operates on the same terms as the original insurance and to describe the application of an average condition whereby if the sum insured is inadequate and does not cover the risk, the insured bears a proportionate part of the claim.

Collective policy

A policy issued on behalf of a number of insurers or a policy covering a number of items, each being insured separately.

Commission

A proportion of the premium paid by the insurer to the agent for his services in procuring and serving the policy-holder.

Comprehensive policy

A policy covering a number of perils.

Compulsory insurance scheme

Any form of insurance required by law.

Consequential loss insurance

Insurance against monetary loss other than material damage caused by the insured peril(s). This type of policy is often applied to irrigated agriculture, where cover is purchased against loss or damage to the crop consequent to breakdown of irrigation equipment and thus inability to irrigate the crop.

Constructive total loss

When the insured property has been damaged to such an extent that it is uneconomic to salvage it, a constructive total loss may be declared. A constructive total loss is not the same as an actual total loss, whereby the insured property is totally destroyed. In crop insurance, a constructive total loss may be declared when damage levels exceed a pre-determined percentage of the crop making it uneconomical to harvest the remaining crop, i.e. harvest costs are greater than the value of the undamaged crop.

Contingency fund

A fund held as a reserve to cover claims should an insured event occur.

Contingency insurance

Insurance against relatively remote possibilities.

Cover note

A temporary document of evidence stating that the insurer has accepted the risk.

Credit crop insurance (linked with agricultural credit system)

Coverage is decided based on the 'normal' yield and the cropped area of each insurance unit of a farmer. It is irrespective of the value of the crop production loan.

Crop credit insurance

Coverage is decided based on the amount of the production loan of individual farmers. Each farmer has a different amount according to the different value of his loan, regardless of his cropped area.

Crop insurance

Provides protection against loss or damage to growing crops including perennial crops such as tree crops against specified or multiple perils, e.g. hail, windstorm, fire, flood. Measurement of loss could be by "yield" basis, production costs basis, agreed value basis or rehabilitation costs basis. While most crop insurance is geared towards loss of physical production or yield, cover may also be provided to loss of the productive asset such as tree crops.

Cut-off

1) The date a policy expires and after which an insurer or reinsurer is not liable for any damage. 2) Separation between buildings so that each is assumed to be a separate fire risk. This could be used for insurance of agricultural processors, glass houses, pig or poultry units etc..

Cyclone

Areas of low pressure around which winds blow clockwise in the southern hemisphere and anticlockwise in the northern hemisphere. Cyclones are of two main types: tropical (hurricanes) and extratropical.

Damage rate

(See insurance damage rate).

De facto

As a matter of fact.

De jure

As a matter of law.

Declaration

1) A statement on a proposal form signed by a proposer verifying that the details included in the proposal are correct. 2) A periodical statement in a policy containing an adjustable premium, providing details of items on which the premium depends.

Deductible (Excess)

An amount representing the first part of a claim which an insured has to bear as stated in the policy. The deductible is usually expressed as a percentage of the sum insured, but may equally be a monetary amount.

Deposit premium

A payment in advance as a deposit pending calculation of the final premium due.

Development risks

Risks attaching to products which have recently been launched and which for scientific or technological reasons cannot be anticipated due to the newness of the product. In agricultural insurance, this may apply to a situation where a new crop type is introduced to an area, but where there is no prior experience that it will grow successfully under the prevailing agro-climatic conditions and risk exposures in the area.

Direct costs

Costs which vary directly with the amount of business being transacted.

Direct insurance

Insurance as opposed to reinsurance.

Double indemnity

Compensation of damage twice over.

Drought

This is one of the most commonly requested perils by farmers, but it is also one of the most difficult perils to insure because of problems of its definition, isolation and measurement of effects on crop production. In contrast to most weather perils, drought is a progressive phenomenon, in terms of an accumulating soil moisture deficit for plant growth, and its impact on crop production and yields is often extremely difficult to predict, then measure and isolate from other non insured causes.

Earned premium

Premium is said to be earned once the insurance has expired.

Errors and omissions insurance

Insurance against losses resulting from errors or unintentional omissions. Usually purchased by companies providing a service.

Escalation

Provision in a policy for automatic increases on a defined basis in premiums and sums insured. This may be used for perennial crops which have an increasing value up until the point of maturity, often several years, when the value levels off, and finally decreases as production potential decreases.

Estimated premium

A provisional premium subject to final adjustment.

Excess

1) Same as deductible. 2) The balance of risk that cannot be placed in an insurance market, so additional cover has to be found from elsewhere.

Excess insurance

Insurance that comes into effect once losses exceed a specified level or the amount covered by an additional policy to which it does not contribute.

Excess of loss policy

A policy that covers claims once they have exceeded a stated amount. A non-proportional type of reinsurance, where the reinsurer agrees to pay the reinsured losses which exceed a specified limit arising from any risk or any one event. A reinsurer may decide to limit his exposure by setting an upper limit above which he will not pay claims. For example, a reinsurer may agree to pay claims of \$200,000 in excess of \$100,000. If the claims are more than \$300,000, the reinsured will have to bear the remainder of the claims. Alternatively, he may take out further excess of loss reinsurance with other reinsurers until the total sum insured of the original risk is covered. There are two types of excess of loss treaties, working covers and catastrophe covers (for explanation see under relevant headings).

Excess rain

Definitions of this peril vary widely, but generally relate to abnormally high rainfall intensities over short periods of time which cause direct physical damage to crops (lodging, shedding of grain etc.) and this may extend to secondary losses caused by saturation of soil and chlorosis and necrosis of plants. Some policies also provide protection against excess rain at the time of harvest which prevents access to fields in order to carry out the harvest operations in a timely fashion, resulting in yield loss.

Excessive heat

Excess heat caused by high temperatures which may cause severe damage or loss in crops, such as at the pollination stage when excess heat will inhibit seed set. Because of difficulties in isolating and measuring losses due to this peril it is seldom accepted by crop insurers.

Experience rating

Rating the risk using the insured's own loss/accident history and not taking into consideration general market loss ratios and rates. Only used for large sums insured and therefore large premiums.

Expiry

The completion of the period of insurance.

Exposure

The amount (sum insured), exposed to the insured peril(s) at any one time. In crop insurance, exposure may increase then decrease during the coverage period, following the growth stages of the crop from planting to completion of harvest.

Facility

An agreement between an insurer and a broker or agent, allowing the broker or agent, to accept insurances in a specified category on the insurer's behalf.

Facultative reinsurance

Reinsurance of risks on an individual basis. The reinsurer has the option to accept 100% of the risk, a proportion of it or to reject the business. Facultative reinsurance is used to (i) reinsure special risks outside the scope of treaty reinsurance; (ii) reinsure amounts in excess of existing treaty limits; (iii) restrict the liability of the insurance (ceding) company; (iv) reduce the exposure of the insurance company resulting from accumulation of risks within a certain area; (v) obtain capacity when the volume of business does not justify treaty reinsurance; (vi) enable reinsurers to evaluate underwriting practice of the insurance company.

Facultative treaty reinsurance

This is a combination of facultative reinsurance and obligatory treaties, whereby the ceding company has the option to cede a risk (as per facultative risks) and the reinsurer has to accept (i.e. cannot decline as per a treaty) a share of the risk underwritten by the ceding company. This type of reinsurance is usually used after a surplus treaty has utilised all its capacity, to provide the additional capacity required to cover the sum insured.

First loss insurance

The sum insured is accepted to be less than the value of the insured property. The insurer agrees to pay claims up to the insured limit.

Fixed premium

A premium fixed at the outset and not subject to any adjustment during the course of insurance.

Fixed sum excess

A provision in a policy stating that the insured shall bear the first, e.g. \$1000 of a loss.

Flat line reinsurance

Reinsurance of a fixed amount, whether the whole or a part of the insurer's line.

Flood

The overflowing or deviation from their normal channels of either natural or artificial water courses and the bursting or overflowing of public water and other flow of water originating from outside the insured property.

Force majeure

An unavoidable hindrance preventing an intention from being carried out, such as Acts of God, strikes, war etc.

Forestry Insurance

Protection against loss or damage to trees (standing timber), most commonly against fire, catastrophic windstorm, snow, flood or earthquake events. Escalating valuation and indemnity systems are applied in order to reflect the increasing volume of timber and thus exposed values at risk with increasing age of the trees.

Franchise

An amount of loss which has to be reached before the insurer will pay a claim and once this threshold is met, the insurer has to pay the claim in full. e.g. A farmer insures his crop for \$1000 with a franchise of \$100. If the claim is for \$99, then this is borne by the farmer. If the claim is for \$101, however, then the whole amount of the \$101 is paid by the insurer.

Freeze

Damage to crops begins when temperatures fall below zero degrees Celsius, either through freezing of surface water or internal plant cell moisture. In many crop insurance circles this term is used interchangeably with frost. In the US, however, the term "freeze" is commonly applied to cold advection caused by the invasion of low temperature air masses into an area, as distinct from "frost" which relates to radiative cooling. Advection cooling tends to occur on a widespread scale, critical temperatures apply to all areas and may last for many consecutive nights and can result in very severe damage to crops. Conversely, radiative cooling tends to occur in more isolated pockets, critical temperatures occur only for a night or two, and frost prevention measures, notably increasing wind circulation has a strong warming effect on temperature.

Fronting company

A company involved in direct insurance which has an agreement with a reinsurer to offer him reinsurance for the whole discussed amount.

Frost

See freeze.

Full value insurance

The sum insured has to be equal to the full value of the insured property. In crop insurance, this would equate to the potential revenue for the crop being insured.

Gross earned premiums

The premium owed to or received by an insurer prior to any deductions for reinsurance but adjusted to take into account the difference between unexpired risk reserves at the beginning and end of the period of insurance.

Gross premium

The premium paid by the insured, which is aggregate of components including risk premium plus operating expenses, commissions, reserves and other expenses paid by the insured (see Premium).

Guaranteed yield

The expected physical yield of a crop stated in the insurance policy, against which actual yields will be compared when adjusting any losses.

Hail

Precipitation in the form of ice granules which according to the size and quantity thereof can cause severe damage to livestock and crops.

Hazard

A physical or moral feature that increases the potential for a loss arising from an insured peril or that may influence the degree of damage.

Hours clause

Provision in a catastrophe excess of loss treaty specifying the number of hours after an insured event during which losses must occur in order to calculate the total claims payable by the reinsurers.

Hurricane

Any cyclone with constant wind speeds of 74 miles per hour (64 knots) or more.

Impact damage

Damage to a fixed property by a moving object.

Inception date

The date on which the insurance cover commences.

Increase in cost of working

The additional costs incurred to maintain production should the insured peril occur resulting in damage to the insured property. An example in crop insurance, would be the increase in costs resulting from drying a harvested crop in a drier, when normally the drying process occurs naturally in the field.

Increased risk

An insurance that includes an unfavourable feature which increases the potential for a loss.

Incurred loss ratio

Losses incurred as a percentage of the premiums earned.

Indemnity

The amount payable by the insurer to the insured, either in the form of cash, repair, replacement or reinstatement in the event of an insured loss which amount is measured by the extent of the insured's pecuniary loss, is termed the indemnity. It is set at a figure equal to but not more than the actual value of the subject matter insured just before the loss, subject to the adequacy of the sum insured. This means for many crops that an escalating indemnity is established, as the growing season progresses.

Indemnity period

A period of time specified in the policy during which an insurer must indemnify the insured after the occurrence of the insured peril for damage resulting from the insured peril. Typically found in business interruption policies.

Inspection clause

A clause in a policy which allows the reinsurer to inspect the books of the ceding company.

Insurable interest

An insurance policy is only valid if the insured is related to the subject matter insured in such a way that he will benefit from its survival, suffer from loss or damage caused to it or may incur liability in respect of it.

Insurable yield

A term used in crop insurance to represent the maximum yield that will be insured under a policy. It is usually expressed as a percentage of the potential yield of a crop; the latter being established by reviewing previous production in the area to be insured, assessing the potential of the land to grow the crop and the management capabilities and by inspecting the actual growing crop to assess its potential yield.

Insurance

A financial mechanism which aims at reducing the uncertainty of loss by pooling a large number of uncertainties so that the burden of loss is distributed. Generally each policy holder pays a contribution to a fund in the form of a premium assessed by the insurer, commensurate with the risk he introduces, which is established and administered by the insurer and out of these funds are paid the losses suffered by any of the insured.

Insurance agent

The person who solicits, negotiates or implements insurance contracts on behalf of the insurer.

Insurance broker

The person who represents the insured in finding an insurer or insurers for a risk and negotiating the terms of the insurance contract. A broker may also act as an agent (i.e. for the insurer) for the purposes of delivering a policy to the insured and collecting premium from the insured.

Insurance coverage

The scope of insurance provided by the insurance policy.

Insurance damage rate (IDR)

The IDR = $\frac{\text{indemnities paid}}{\text{total sum insured}}$

Generally the insurance damage rate is expressed as a percentage and is applied for the sum total of one type of an insurer's business in a given year. For example, the IDR for paddy rice in Japan in 1976 was 8.3 percent. Another term of IDR is "damage rate" or "lost cost".

Insurance policy

A formal document including all clauses, riders, endorsements and papers attached thereto and made a part thereof which expresses the terms, exceptions and conditions of the contract of insurance between the insurer and insured. It is not the contract itself but evidence of the contract. In compulsory schemes the individual insured may not hold a formal insurance policy document directly related to the insurance contract but an insurance certificate which gives a brief outline of the insurance terms and conditions.

Insurance unit in individual approach

A term used in crop insurance to represent the area of land to be covered by a policy. The area of land may either be a single plot or the total of several plots of the same crop type farmed as one unit by the insured. The spread of risk improves as the area to be insured increases.

Insured

The person or business entity covered by an insurance policy.

Insured peril

The cause of loss stated in the policy which on its occurrence entitles the insured to make a claim; e.g. hail, frost, wind, drought, excessive rain, pests and diseases.

Insurer

The company which issues an insurance policy and is named in the policy as being responsible for paying a claim should a loss event result in damage to the insured property.

Interruption insurance

The insurance of losses resulting from the interruption of business production by unpredicted events such as fire.

Layer

The term used to define a tier of insurance. This may be expressed in terms of monetary amounts or as percentages, for example of premium income.

Lead

The underwriter who first accepts a line or share of an insurance or reinsurance. It is usual for the lead underwriter to insure/reinsure the largest share of the risk. Underwriters who insure subsequent lines or shares are known as the following underwriters.

Liability insurance

The insurance of damage to third parties, for example third party motor insurance covers drivers and their vehicles other than the insured to be covered should an accident occur.

Limit

The insurer's maximum liability under an insurance policy.

Limit of liability

The maximum sum payable under an insurance/reinsurance policy for losses which have occurred. The limit of indemnity may be expressed per accident, per event, per occurrence or per annum.

Line

1)The proportion of business accepted by an insurer or reinsurer. A risk may be insured or reinsured by several insurers/reinsurers and each of their shares is termed a line. 2) In the US, a line represents an insurance type e.g. fire.

Line-slip

A slip for a particular type of insurance business which if signed by the leading underwriter and the second underwriter, will bind following underwriters who have agreed to accept the business under the slip.

Livestock insurance

This class of agricultural insurance generally centres on the provision of mortality cover for livestock due to named disease(s), and accidental injury. Insurance cover is normally restricted to adult animals and may be taken out on an individual animal or herd basis. Major classes of insured livestock include beef and dairy cattle, sheep, goats and pigs and domestic fowl.

Loading the premium

Charging more than the usual premium. The process whereby a standard premium rate is surcharged to account for additional risk or cost factors.

Location limit

The insurance limit applied to a defined location in the policy. It may be that a policy covers several locations, each having their own limit. The limits per location would usually be defined in a schedule attaching to the wording.

Loss

An event giving rise to a claim under the insurance policy; a claim; or the disappearance of the insured property through an act such as theft as opposed to its survival in a damaged state.

Loss adjuster

A representative of the insurer or an independent person employed by the insurer to assess and determine the extent of the insurer's liability for loss or damage claimed by the insured.

Loss adjustment

Determination of the extent of damage resulting from occurrence of an insured peril and settlement of the claim. Loss adjustment is carried out by the appointed loss adjuster who works on behalf of the insurer.

Loss assessment

The first stage of loss adjustment i.e. estimation of extent of loss caused by the insured peril.

Loss cost

Same as insurance damage rate i.e. claims expressed as a percentage of the total sum insured or total liability.

Loss frequency

The rate of occurrence of losses, often expressed in terms of the number of incidents over a period of time. This measure can be used to assist in rating a policy and for judging the effectiveness of loss prevention facilities.

Loss of profits insurance

Same as business interruption (or interruption) insurance.

Loss prevention

Measures taken by the insured, which may be requested by the insurer, to prevent losses or to reduce the amount of damage should the insured peril occur.

Loss ratio

The proportion of claims paid (or payable) to premium earned. A loss ratio is usually calculated for each class of business in which an insurer participates. Analysis of loss ratios can be useful in assessing risks and designing appropriate insurance structures.

Loss reserve

A fund set aside to pay outstanding claims at the end of the period of insurance.

Malicious damage

Deliberate damage by individuals but not as a result of riots or strikes.

Malus

An addition to insurance premium as a result of previous claims.

Market capacity

The amount of insurance that can be provided by all the insurers involved in the appropriate market.

Master policy

A single policy issued in respect of a number of persons or insurances.

Maximum possible loss (MPL)

The largest loss believed to be possible for a certain type of business.

Minimum premium

Sometimes a minimum premium will be stipulated for a class of business to allow for any unforeseen administration costs which could be incurred.

Minimum rate

The lowest rate an insurer is prepared to quote for a particular type of business.

Moral hazard

The risk or danger to be looked for from human nature, both individual and collective. Moral hazard depends mainly on the character of the society, the character of the insured, and on the character of his employees and the manner in which they work and behave at work. Examples of poor moral hazards are carelessness, fraudulent claims, crime or arson, irresponsibility, gross over insurance, general moral climate due to period of depression and recession and unreasonable demand of high amount of claims settlement.

Mutual company

A company established to undertake its own insurance thereby receiving all benefits from profits. A mutual company has no risk capital provided by external parties. In agricultural terms a mutual company could be formed by a group of farmers who each pay a premium into a fund that they control, rather than to an insurance company.

Net earned premiums

Premiums received by or payable to an insurer having had deducted from it reinsurance costs and having been adjusted for the cost of any unexpired risk.

Net line

An insurer's retained liability under his line (i.e. share in the risk) after reinsurance.

Net premium

The premium necessary to cover any anticipated losses, before loading to cover commission and other expenses. Also called "risk premium" or "pure premium".

Net retained brokerage

Brokerage retained by the broker less allowances to third parties.

Net value

The value of the property after damage by the insured peril before any repair/salvage costs have been incurred.

No claim bonus (discount)

For an insured who in previous years of insurance, has made no claims, underwriters may decide to reduce the renewal premium, the premium reduction being termed the No Claim Bonus or No Claim Discount.

Non-proportional facultative reinsurance

In non-proportional facultative reinsurance, the reinsurer's liability is not proportional to the insurer's. Usually this is because the original rates paid for the insurance have declined significantly and the insurance company has found it necessary to resort to excess of loss reinsurance in order to retain as much premium as possible whilst limiting its exposure. Reinsurer's are able to quote their premiums for the excess amount regardless of the original rate paid to the insurer by the insured. The loss potential to the insurer increases and becomes a first loss situation.

Non-proportional treaty reinsurance

An agreement whereby the reinsurer agrees to pay all losses which exceed a specified limit arising from an insured portfolio of business. The limit is set by the reinsurer and may be monetary e.g. excess of loss, or a percentage e.g. stop loss. The rates charged by the reinsurer are calculated independently of the original rates for the insurance charged to the insured. The reinsurer completely depends on the insurer's judgement as to what is and is not a good risk.

Normal yield

That yield which a number of years' experience indicates can be expected from a particular plot under normal conditions, when no extraordinary natural disaster or unusual meteorological events occur. In practice, the modal yield value (the yield most commonly occurring) is taken as the normal yield. The mode is also the yield most commonly conceived by farmers as being acceptable, since they generally ignore bad years when estimating future yields on the basis of past performance.

Notification of claim

Insurance policies usually contain a provision stating that any occurrence of an insured peril which could result in a claim must be reported to the insurer within a specified amount of time.

Off risk

A term used when insurance has either expired or been cancelled.

On risk

A term used to describe the policy during the period of insurance.

Original insurer

The insurer who accepts directly the insurance business from the owner of the insured property.

Over insurance

The insurance of a property for more than its value. This may be a genuine mistake or fraudulent.

Overheads

Fixed costs which do not alter with the amount of business carried out. For example, the overheads on a farm would be: Rent, Land taxes, Permanent labour, Machinery spares and repairs, Machinery depreciation, Office expenses, Water, Fuel and oil, Farm maintenance, Vehicle tax and insurance, Rent and Land taxes.

Partial loss

The loss of part of the insured property. This is often experienced in crop insurance, but not so much in livestock insurance.

Percentage adjustment

A percentage increase or decrease to the rate reflecting experience with a particular type of business.

Peril

A potential cause of loss or damage to the property. Perils can be insured or uninsured, both are usually named on the insurance policy. It is therefore important that loss adjustment procedures enable distinction to be made between damage caused by insured and uninsured perils. The main natural perils covered in agricultural insurance include fire, flood, freeze, hail, wind, excess rain, drought.

Period of insurance

The period of protection for which the policy is issued. Any losses taking place outside this period are not indemnified. For annual crops this period of insurance normally commences at the time of sowing, sprouting, blooming or transplanting and ends at the time of harvest. For perennial crops, e.g. oil-palm, the period of insurance may be on an annual basis.

Physical hazards

A physical feature that increases the chances of a loss happening, for example, in crop insurance, if a disease is insured, the occurrence of a weather peril, such as continuous rain may enhance the occurrence of the disease, or hot, dry weather increases the fire risk in a forest.

Placing

Obtaining cover for a risk.

Poisson distribution

A type of frequency distribution developed by the French Mathematician, SD Poisson (1781-1840), illustrating the curve obtained when the chances of an event occurring are small. An example of its application is in quality control statistics to count the number of defects of an item, or in insurance to estimate the number of insurable losses.

Policy

A document setting out the terms of insurance for the insured property.

Policy year

The year that a policy runs for as defined in the policy.

Political risks

Risks arising from political actions which are beyond the control of the insurer or the insured such as war and civil war.

Pool

A common fund set up by a number of insurers or reinsurers who agree to accept insurances or reinsurances for a defined type of business. All or part of the premiums arising from this class of business are paid into the pool. All claims, profits and expenses relating to this class of business are shared between the insurers or reinsurers in the same proportions as the premium they paid into the pool. Pools are set up for a number of reasons, the main one being creation of capacity to handle catastrophic risks or certain types of risks. In addition, pools have been used in countries to prevent reinsurance being ceded to reinsurers outside that country. The main disadvantage of a pool, is the danger arising from accumulation of one type of risk which may be subject to losses occurring at the same time due to the same insured peril. It is possible to reduce this weakness by the pool purchasing catastrophic non-proportional cover.

Portfolio

1) All the business underwritten by an insurer/reinsurer. 2) All the business of a specified type accepted by an insurer/reinsurer, for example, crop freeze insurance in the United States.

Potential yield

The crop yield which could be obtained provided no disasters occur in a particular year. The potential yield does not necessarily equate to the maximum yield that could be obtained. Events may have happened in previous years which automatically reduce the yield in a particular year. Estimation of potential yield would take such events into consideration.

Premium

The monetary consideration payable by the insured to the insurers for the period (or term) of insurance granted by the policy.

Premium rate

The price per unit of insurance. Normally expressed as a percent or per mille of the sum insured.

$$\text{Premium rate} = \frac{\text{premium (or gross premium)}}{\text{amount of insurance}} \times 100$$

Primary insurer

Same as original insurer.

Probable maximum loss (PML)

An estimate of the maximum loss that is likely to arise on the occurrence of a single event considered to be within the realms of probability, remote coincidences and possible but unlikely catastrophes being ignored.

Producer

A person who solicits business for the insurer and/or the original person to introduce a type of business and obtain a proposal for insurance.

Profit commission

The percentage of profit made by an insurer/reinsurer from a class of business which is paid at the end of the period of insurance. Income is generally considered as premiums for current year, losses outstanding from previous year and unearned premium reserve brought forward from previous year. Expenses are generally considered as commission paid for current year, losses paid during current year, unearned premium reserve for current year, reinsurance expenses (a % of net premium), any deficit brought forward, miscellaneous charges.

Proof of loss

1) A statement written and signed by the insured stating that the insured property has suffered damage. 2) Verification by the loss adjuster confirming damage to the insured property.

Proportional treaty reinsurance

An agreement whereby the insurer agrees to cede and the reinsurer agrees to accept a proportional share of all reinsurances offered within the limits of the treaty, as specified on the slip. Limits can be monetary, geographical, by branch, class of business etc. The reinsurer has no choice of which risks to accept or decline; he is obliged to accept all good and bad risks which fall within the scope of the treaty.

Proposal

An application for insurance.

Provision

A clause in the policy explaining a certain feature of the insurance agreement, for example, how a deductible would be applied to the policy.

Pure premium

The amount required by an insurer to pay losses under an insurance policy prior to taking into account the insurer's general expenses.

Quota share treaty reinsurance

An agreement whereby the ceding company is bound to cede and the reinsurer is bound to accept a fixed proportion of every risk accepted by the ceding company. The reinsurer shares proportionally in all losses and receives the same proportion of all premiums as the insurer less commission. A quota share often specifies a monetary limit over which the reinsurer will not accept to be committed on any one risk, for example, 70% each and every risk not to exceed \$700,000 any one risk.

Quotation

A statement from the insurer/reinsurer stating the amount of premium he will require for insuring/reinsuring a risk.

Rate

The amount charged by the insurer or reinsurer for the insurance. Usually expressed as a percentage of the sum insured. The amount this equates to is the premium.

Rate on line

A rate of premium for a reinsurance which if applied to the reinsurer's liability will result in an annual premium sufficient to meet expected losses over a number of years.

Reinsurance

When the total exposure of a risk or group of risks presents a hazard beyond the limit which is prudent for an insurance company to carry, the insurance company may purchase reinsurance i.e. insurance of the insurance. Reinsurance has many advantages including (i) levelling out the results of the insurance company over a period of time; (ii) limiting the exposure of individual risks and restricting losses paid out by the insurance company; (iii) may increase an insurance company's solvency margin (percent of capital and reserves to net premium income), hence the company's financial strength. (iv) The reinsurer participates in the profits of the insurance company, but also contributes to the losses, the net result being a more stable loss ratio over the period of insurance.

Reinsurance broker

A broker placing insurances with reinsurers. Acts on behalf of the insurer.

Reinsurance treaty

An agreement between two insurers whereby defined risks insured by one party are reinsured by the other to an extent specified in the insurance contract.

Reinsured

The insurer who passes on risks (cedes) to reinsurers.

Renewal

If an insured decides to insure his property again after the period of insurance with the same insurer, this is termed renewal business. If the insured has never made a claim on his policy, the insurer may introduce a No Claim Bonus (see above) to reduce the premium rate.

Reserve deposit premium

A proportion of the premium due to reinsurers but retained by the ceding company as a guarantee for fulfilment of the reinsurers obligations. (This should not be confused with unexpired risk reserve, although the amounts are usually the same).

Reserve loss premium

Premium held by the ceding company providing it with further security for due performance of reinsurers obligations to pay claims outstanding at the end of the period of insurance.

Retention

1) The net amount of a risk that an insurer or reinsurer keeps for his own account and does not reinsure. 2) The premium kept by an insurer having paid any claims and expenses which equates to the insurer's profit.

Return period

The time period between occurrences of the insured peril. For example, the return period for a hurricane may be once in every ten years. Return periods are established by analyzing historical data on the insured peril.

Return premium

Premium returned to the insured. May be returned because the insurance never attached or because the sum insured was reduced.

Risk

1) The subject matter of insurance; the insured property. 2) Uncertainty attached to the outcome of an event. 3) The probability of a loss. 4) The insured peril. 5) Danger.

Risk assessment

Estimation of the extent of exposure to the insured property from the insured peril.

Risk management

Care of risk to maintain income and avoid/reduce loss or damage to a property resulting from undesirable events. Risk management therefore involves identifying, analyzing and quantifying risks and taking appropriate measures to prevent or minimise losses. Risk management may involve physical treatment, such as spraying a crop against aphids or planting windbreaks and/or financial treatment, e.g. hedging, insurance and self-insurance.

Risk prevention

Attempting to reduce the potential for damage resulting from insured perils (same as loss prevention).

Salvage

The process by which the damaged property may be saved or the extent of damage reduced. An outside party may be paid for carrying out salvage operations. The policy needs to address the issue of salvage and to whom any proceeds from salvage will accrue i.e. the insurer or the insured. There is often potential for salvage in crop insurance where a crop cannot be sold for its original use, for example oranges for the fresh fruit market, but it can be used for another purpose where quality is not so vital, for example, orange juice.

Schedule

A schedule of insurance is often attached to a policy listing all the variable items referred to in the policy. For example, if the insured wishes to insure several locations and a different sum insured is attached to each location, these would be listed as individual items in the schedule.

Scheme

An insurance programme developed to insure a certain type of business.

Self-insurance

If an individual or a company elects not to purchase insurance as it believes it can absorb any loss or damage to its property internally. In addition, it may be that an individual or company is able to insure a proportion of his/its property and purchase insurance above this level.

Single channel market crop

A commercial crop for which there are a limited number of market outlets. This can facilitate arranging crop insurance.

Sliding scale treaty

A form of reinsurance in which the premium rate for the forthcoming year is based on the claims experience over a specified number of years in the past.

Slip

A document prepared by a broker and submitted to underwriters, outlining specifications for an insurance proposal. If an underwriter accepts the terms of the slip, he initials the slip and indicates the share of the risk he is prepared to underwrite.

Specific risk insurance

A policy that defines the perils to be covered by the insurance as opposed to an "All Risks" policy which covers a multitude of perils.

Standard yield

An average yield under given conditions.

Standing charges

Same as fixed costs. Enterprise costs that have to be met even if turnover of the business decreases.

Stop loss reinsurance

(Excess of loss ratio) Stop loss reinsurance protects the reinsured against losing more than a specified amount of loss for a particular type of business. The amount is established as a percentage of the reinsured's annual premium income for the type of business being covered. The reinsurer only pays losses for that year when the loss ratio exceeds the agreed percentage of the premiums. Once this percentage has been exceeded, the reinsurer is responsible for all losses until the limit of liability is reached. Stop loss reinsurance is often used in crop insurance. An example of its wording in an agreement would be, "To pay an amount in excess of a 60% loss ratio up to 100% loss ratio".

Subject matter of insurance

The item/property/crop being insured.

Sum insured

The amount specified in the policy up to which the insurer will pay indemnities should the insured peril(s) occur and result in a loss to the insured property.

Surplus

The amount by which the assets in an insurance fund exceed the liabilities on a given date as calculated by an actuary.

Surplus line

The ceding company's retention of a risk in surplus treaty reinsurance, which is then insured under a different policy.

Surplus treaty reinsurance

An agreement whereby the ceding company is bound to cede a risk and the reinsurer is bound to accept the surplus liability over the ceding company's retention of the risk. The ceding company's retention is termed the line. The treaty is for a specified number of lines, for example, 20 lines. This means that the reinsurer will accept a maximum of 20 times the ceding company's retention of the risk. A ceding company can use surplus treaty reinsurance to pass on to reinsurers the poorer risks and the larger risks, thereby retaining the better risks and smaller risks for itself. The main disadvantages of surplus treaty reinsurance are therefore to the reinsurer, who receives a higher share of the poorer and larger risks compared to that of the ceding company.

Tempest

A severe storm, usually involving strong winds and heavy rains.

Territorial limits

The geographical limits in which an insurance scheme can operate. Will be defined in the policy and/or on the slip.

Threshold (franchise)

See Franchise.

Total loss

1) A loss caused by the insured peril(s) which results in an insurer paying indemnities equivalent to the total sum insured. 2) The insured property is completely damaged beyond repair/salvage or it is uneconomic to repair the insured property (also Constructive Total Loss).

Treaty reinsurance

Reinsurance of specified types of business. The reinsurer is bound to accept all risks presented to him by the ceding company. There are two main types of treaty reinsurance, proportional and non-proportional. Both are explained in this glossary.

Tribunalization

When a party wishes to be granted binding authority for a certain class of business, it has to be vetted by a board of Lloyd's underwriters; the vetting process being termed tribunalization.

Tropical Storm

Any cyclone circulation originating over tropical waters having a distinct rotary circulation with constant wind speeds ranging between 39 to 73 miles per hour (34 to 63 knots), or 62.4 to 116.8 km. per hour.

Ultimate net loss

Total claim amount paid by the reinsured to settle losses including loss expenses, salvage and recoveries including those from treaties contributing to the benefit of excess of loss insurance.

Uncertainty

Not knowing whether an event is going to occur and being unable to measure the likelihood of occurrence of the event.

Under insurance (See Average)

A situation in which the sum insured is less than the full value of the insured property.

Underwriter

Same as an insurer or assurer. An individual who accepts risks and states the terms under which he is prepared to insure the property.

Underwriting profit

Any profit resulting from an insurance or reinsurance before any interest has been added.

Unearned premium

Either premium of an insurance policy which never came to fruition or if an insurance policy has attached, the part of the premium that relates to the insurance period still to run.

Unexpired risk reserve

The proportion of the premium required for risks which have started during the current year of the treaty, but which still require to be covered some time after the expiry date of the treaty.

Value

The value of the property to be insured. The basis of valuation varies depending upon the property to be insured. In crop insurance, the insured value may be based upon the production costs of the crop, market value of the crop, or re-establishment costs.

Values at risk

The values of the property insured or proposed for insurance.

Voluntary excess

An excess which the insured agrees to bear in exchange for a reduction in premium.

Voluntary scheme

An insurance programme in which individuals may choose whether or not to insure their property. Voluntary schemes in crop insurance usually relate to a national scheme funded by the government or a co-operative.

Windstorm

Currents of air of such a velocity that they cause physical loss or damage to the insured crops or agricultural buildings etc. See also cyclone, tropical storm and hurricanes.

Working cover

An excess of loss reinsurance with a layer of cover in which frequent losses are expected.

Working excess of loss layer

A layer of excess of loss reinsurance in which frequent claims are expected. The reinsured and reinsurer protects the normal daily exposure of the risk.

Written line

The proportion of a risk an insurer has agreed to accept when signing a slip.

Yield

1) The production of the insured property per defined unit, for example in crop insurance the number of tons/acre, or in a factory the output of product per day or per man. 2) Yield is also used to describe the rate of return on an investment.

Zoning

Dividing the geographical limits of an insurance programme into zones for rating purposes. For example, in crop insurance an area may be divided into zones according to climate, topography and natural vegetation. The premium rates vary between the different zones depending upon the frequency of occurrence of the perils to be insured.

RURAL FINANCE

Access

Ability of a person or group to receive services on a timely and financially acceptable basis. Particularly of concern for persons, households and firms normally excluded from formal financial institutions and their services.

Accounting period

The period of time at the end of which the accounts of a firm are closed and financial statements are prepared. The period is typically twelve months (i. e. a fiscal year).

Accounts payable

Amounts due and payable to third parties for goods and/or services received for which payments are due, but have not been made. These amounts do not include loans or notes payable.

Accounts receivable

Amounts due for goods and services sold to others but for which payment has not yet been received, usually within one year of the date of an accounting report. Amounts provided for in the "Provisions for Bad Debts (or Loan Losses) Account" are not included in Accounts Receivable.

Accrual

Revenues and expenditures (costs) are accrued or recognized as they are earned or incurred and recorded in financial statements of the periods to which they relate. Revenues on non-performing loans are normally not subject to accrual.

Accrual accounting

A form of accounting in which all transactions are recognized and recorded at the time income is earned or expenditures are incurred, regardless of when payment is actually made or received. The method is in contrast to cash accounting.

Accrued interest

Interest owed on all loans as of the date of the balance sheet including past due interest as well as interest accrued since the last payment was made.

Actuarial predictions

Forecasts about the probable duration of the life of a person.

Add-on-loan

A loan in which the interest payable over the life of the loan is added to the initial loan principal, the total amount is then divided into equal installments (also known as 'capitalizing interest').

Additionality

The attribute that something is added or occurs because of an event, such as farm production rising because a farmer borrows to buy fertilizer that would not have been purchased without the loan.

Adjustable rate mortgage

A loan agreement which permits adjustments of the loan interest rate at specified intervals, as determined by the movement of a base index or the cost of funds.

Adverse selection

Generally the problem of bad products being sold with good because buyers are unable to identify the good products. In finance, it is the problem of lenders (buyers) making some bad loans along with good ones because only the borrowers (sellers) have complete information, including hidden knowledge about their true characteristics and their intention to repay.

Agency costs

The costs of undertaking an agency relationship, including transaction costs, moral hazard costs and information costs.

Agency relationship

An explicit or implicit contract in which one or more persons - the principals - engage another person the agent to take actions on behalf of the principal(s) in which some decision making authority is given to the agent.

Agent

A person authorized by another (a principal) to act or to represent that person in the transaction of some business, management of property or the performance of some task.

Agent bank

1) Bank acting for a foreign bank. 2) The bank appointed by other banks in a syndicate to handle the administration of the loan.

Ageing of loans in arrears

The classification of loans in arrears into groups that represent the length of time since interest or principal payments have been received.

Agribusiness

A combination of the terms agriculture and business signifying a broad definition of agriculture to include the supply of inputs, farming, harvesting, distribution, shipping, storage, processing, advertising and selling of agricultural products.

Agricultural insurance

Several types of insurance available to the agricultural sector, including crop insurance, livestock insurance and crop credit insurance.

Allowance for bad debt or allowance for loan losses

See provision for bad debts.

Amortization

This term is used in two different ways. The first relates to the repayment of debt on an instalment or serial payment basis in which each payment includes interest on the outstanding debt and a repayment of part of the principal. The second applies to the systematic process of writing off the cost of certain tangible assets over their useful life.

Annuity

A contract offered by an insurance company in which the purchaser receives periodic payments at stated intervals for his/her lifetime or for a specified period of time.

Annuity payments

Series of equal periodic payments at uniform intervals combining principal and interest on debt, designed to repay the debt by its stated maturity date.

Anticipated interest

The amount of interest projected as earnings on bank accounts, assuming that no deposits or withdrawals occur before the end of the current interest period.

Apex bank

A financial institution that provides banking services to other financial institutions. Used often when donor agencies channel money into developing countries through financial institutions .

Apex loan

Loan to an apex development financial unit which onlends it to participating financial institutions which, in turn, onlend it to the final borrowers.

Application for a loan

A questionnaire that a loan applicant must complete which requests information used to determine whether or not a loan will be granted by the financial institution.

Appraisal

The process of establishing the value of a specific piece of property for purposes of selling or mortgaging it.

Appreciation

1) An increase in the market value of an asset over a period of time. 2) A rise in the value of one currency in terms of another.

Appropriability

The condition referring to the possibility that collateral offered to a lender can be effectively transferred from the borrower to the lender upon loan default. If the collateral is not appropriable by the lender, it will have little or no value as collateral.

Arrears

Any installment of principal and/or interest which has not been paid on its due date often established as within thirty calendar days of the due date.

Asset

Something of value that is owned, such as property, money, or goodwill.

Asset-based lending

Making loans secured by an asset such as inventories, accounts receivable, land, equipment, warehouse receipts, guarantees, savings and deposit accounts, or shares of stock.

Asset-liability management

Matching the maturities of deposits with the length of loan commitments in order to prevent the adverse effects that can occur due to a rapid change in interest rates. The typical problem is one of making long-term loans with short-term maturity deposits.

Asset pricing

Attempts to determine the price of financial assets based on the return from a risk-free asset plus an adjustment for risk.

Asymmetric information

The condition in which one party in a transaction has less information than another, such as a lender having less information than a borrower about a borrower's characteristics and intention to repay a loan. This condition can lead to credit rationing.

Attachment

The seizure or taking of property for placement under the court pending the outcome of a creditor's law suit.

Attribution

Assigning a cause to an outcome such as identifying a loan as the cause for a farmer adopting a technology.

Audit

Systematic process of objectively obtaining and evaluating the set of books and accounts of a specific entity by a competent independent body, often required by law or regulations. Objective is to ascertain whether or not the books are properly kept and the accounts show a true and fair view of the entities' state of affairs. In a cooperative, attention is also given to the way in which the legally recognized cooperative principles are being observed.

Bad debt

Those debts which have not been collected and are considered uncollectible or for which the estimated cost of recovery is expected to be greater than the value of the debt.

Bad risk

A person or firm that is not in a good enough financial situation to be able to honour its debts.

Balance

The amount owed, unpaid or outstanding.

Balance sheet

A statement showing assets, liabilities, and net worth of a person, household or firm on a specified date. The assets include items, such as cash, inventory, accounts receivable, and fixed assets such as land, buildings, equipment, investments. The liabilities include unpaid bills, notes, loans and mortgages. Net worth shows the amount by which total assets exceed total liabilities, and represents owner's equity.

Bank

An organization, normally a corporation, chartered by a state or federal entity, to engage in financial activities that may include: 1) deposit function - accept deposits, 2) payment function - disburse money, 3) credit function - extend loans, 4) investment function - investing activities, 5) service function - provide advisory, trust, safe deposit, custodianship, agency and other financial services.

Bank examination

An examination, frequently unannounced, made periodically by bank supervisory authorities to ascertain that the bank is solvent and is operating in conformity with banking laws and sound banking principles.

Bank failure

The closing of a bank, either temporarily or permanently, because of its inability to pay its depositors and maintain enough reserves to meet legal reserve requirements.

Bank law

Legislation (Banking Act) covering the functions of banks in a country.

Bank rate

Rate at which a central bank makes short-term loans available to domestic commercial banks.

Bank regulation

Specific rules and regulations issued by authorized agencies to influence the conduct and structure of banking.

Bank supervision

The oversight of banking activities to ensure that they are operated prudently and in accordance with regulations.

Bankable (profitable) project

A project that is expected to generate sufficient revenues to pay all expenses including the repayment of loans received.

Bankers' acceptance

A time draft that a drawee bank agrees to pay at maturity.

Bankrupt

A financial situation in which a debtor is judged legally insolvent and whose remaining assets are distributed among his creditors.

Bankruptcy

Conditions under which the financial position of an individual or other legal entity are so poor so as to cause actual or legal insolvency. The debtor's assets are seized and liquidated, and the proceeds of the sale are divided among the creditors.

Barriers to entry

Natural and artificial monopolies that prevent additional firms from entering the market and trying to provide competitive products and services. Sometimes government regulations, such as licensing of banks, represent barriers to free entry.

Barter

The direct exchange of goods between two or more persons without the benefit of money as the medium of exchange.

Basis point

A unit of measurement for interest rates in which one basis point = 0.01% or 100 basis points = 1%.

Bearer note

A note that passes title simply by delivery.

Bill of exchange

An instrument in which one party instructs another party to pay a third party on sight or at some definite future time.

Bishi

A term for money clubs in India in which members make periodic contributions to a fund that are pooled and lent. They operate as rotating (ROSCAs) or non-rotating associations.

Bond

1) An interest-bearing debt instrument by which the issuer promises to pay the principal amount and interest at a specified time or times after date of issue. 2) Legal contract by which an insurance company agrees to pay within stated limits for financial losses caused by default or dishonest activities of a third party.

Bonded debt

The amount of debt of a company or government which is represented by bonds.

Bonded warehouse

A physical facility in which commodities are stored and secured. Goods stored in this secure way can be used as collateral to obtain loans.

Borrowing costs

Interest costs and other financing charges incurred in connection with getting a loan. These costs include explicit expenses and frequently also include imputed costs such as value of time spent in getting and repaying a loan.

Branch

A subunit of a central organization, such as the branch of a bank.

Branch banking

A banking system with only a few banking institutions, each having branches operating over a large geographic area.

Break even

The volume of a service or product that needs to be sold at a certain price to meet all costs or "break even".

Bridge loans

1) Financing between the termination of one loan and the beginning of another. 2) Agribusiness firms that act as a bridge by borrowing formal loans and lending informally to farmers to finance their production.

Brokered loans

A loan facilitated or brokered by an individual who arranges contacts between lenders and borrowers.

Budget

An itemized listing of anticipated revenues and the costs that are estimated to be incurred in obtaining the revenue over a stated period of time. See also farm budget.

Business risk

Risk associated with operating a business due to uncertainty in earnings and the ability to pay debts.

Buying on credit

Buying goods with a partial down payment and a promise to pay the balance according to specific terms and conditions.

Bylaws

An organization's rules that are not included in its Constitution or Articles of Incorporation that specify its operating policies and practices.

Caisse populaire

French term for a savings and credit society based on cooperative principles, equivalent to "Credit Union" in English-speaking countries.

Call loan

A loan payable on request.

Camel rating system

An analytical approach to evaluate financial institutions that represents an acronym for Capital adequacy, Asset quality, Management, Earnings and Liquidity. Emphasis is placed on comparing a financial institution with others of its same type.

Cap

A ceiling or limit on the amount that the interest rate or monthly payment on a loan can change at each adjustment or over its lifetime.

Capital

1) One of the three factors of production besides land and labour. 2) The net worth of a business or household. 3) Fund or sum of money that one is willing to or has actually invested.

Capital accumulation

The practice of building-up and maintaining capital.

Capital adequacy

Measures of the sufficiency of the capital of a financial intermediary as set by the appropriate regulatory agency.

Capital asset

Long-term asset with an expected life exceeding one year.

Capital budgeting

Alternative analytical approaches for use in making decisions about the optimum expenditure of funds within a firm or the society as a whole.

Capital deepening

Action which increases the relative value of capital in relation to labour, or the share of financial assets in the total economy.

Capital gain or loss

Profit or losses associated with the buying and resale of a capital asset.

Capital market

The market for buying or selling long-term loanable funds, in the form of bonds, mortgages or the like.

Capital requirements

Regulations that require banks to meet minimum levels of capital or net worth that are designed to assure bank liquidity and protect creditors. See capital adequacy.

Capitalizing dividends

Depositing dividends into capital accounts rather than paying out to member credit unions.

Capitalizing interest

Adding the interest due during the grace period to the loan principal, or adding the interest due on an overdue payment to the loan principal.

Carrying or service charge

Interest and other charges assessed a buyer who does not pay in full for a purchase at the time of delivery.

Carryover

The losses of a firm in one period used to reduce capital gains or other income in another period.

Cash

1) Currency and coins. 2) Any transaction involving cash.

Cash accounting

A method of accounting based on cash receipts and disbursements. This method is in contrast to accrual accounting.

Cash budget

A schedule of expected cash receipts and disbursements.

Cash discount

A discount in the purchase price granted to a buyer who pays for a product or service before its due date.

Cash flow

An accounting statement that is essentially a statement of all cash receipts and payments. It is frequently used to assess liquidity problems of a firm or business.

Cash flow lending

Making loans in which the size and term of loans are based on the projected cash flow of the project financed and/or the borrower's total cash flow as indicators of debt repayment capacity.

Cash on hand

An accounting term used to include cash drawer money, vault cash, and demand deposits.

Cease and desist order

Originally applied to an order by a court or an administrative agency for a company to stop an unfair practice. Also applied to the order requiring a financial institution from continuing an undesirable or unsafe practice.

Central bank

A governmental institution that controls the issuance of money, provides banking services to other banks, may regulate and supervise other banks, and implements the nation's monetary policy.

Central credit union

A credit union whose common bond includes other credit unions and specific groups of individuals. In Canada, "Centrals" refer to provincial associations of credit unions, similar to state associations or "Leagues" in the U.S. and in many other countries.

Central finance facility (CFF)

As a national "credit union for credit unions", provides the following services to credit unions: liquidity, investment opportunities and depository facilities.

Central liquidity facility

A national organization, sometimes operated by a government agency, which manages liquidity for the credit union movement. In the United States, the Central Liquidity Facility is operated by a government agency to act as a "lender of last resort".

Cereal bank

A cooperative or community storage facility set up at the initiative or request of a village, engaging in the procurement of local food grains immediately after harvest, their storage over a certain length of time and their re-sale or distribution in the village during the ensuing lean season.

Certificate of deposit

Regulated savings accounts that carry specific minimum deposits offering high interest rates but which require penalties for early withdrawal before maturity.

Certificate of membership

A certificate that specifies rights, privileges, and conditions of membership in a non-share-issuing cooperative that is issued on payment of a membership fee.

Character

The attributes of personal responsibility and moral integrity considered to be an important quality in granting credit.

Charge account

The granting of credit by retailers to customers with payment to be made according to agreed terms, often thirty days.

Charter

1) Articles of incorporation consisting of powers, rights, and liabilities of a corporation granted to incorporators, carrying the authority to act as a corporation. 2) Those wishing to form a bank (and a credit union in many countries) must apply for a charter, either from a state or federal government. If charter is granted, the granting agent, state or federal, will examine the institution from time to time and has the power to revoke the charter if operations warrant.

Chattel

An item of tangible property other than real estate.

Chattel mortgage

Document offering personal property as security for a loan.

Cheap money

Loans that are available at relatively low rates of interest.

Cheetu

One of the terms used for ROSCAs in Asia.

Chettiers or chetties

Name applied to South Asian moneylenders; analyzed especially among rubber producers in Malaysia.

Chit funds

A form of rotating savings and credit society found in India. The promoter of the fund collects a specific periodic subscription from each of a specified number of subscriber members for a specified period. The total capital collected, minus a commission given to the foreman, is given to one of the members selected by lot or auction. All members must contribute the periodic subscription until the end of the specified period.

Classified loan (doubtful debt)

A loan that is evaluated to be substandard and as such requires a provision against future losses.

Clean

Refers to a money market operation without underlying documentary security, or a loan without collateral.

Closed-end credit

Credit contract specifying time period over which a loan or sales contract will be repaid in full, total amount due, and due dates.

Closed membership

A policy adopted by a cooperative or credit union to either not admit any new members or to place severe restrictions on qualifications for membership.

Closing costs

The expenses incurred in the transfer of real estate ownership from a seller to a buyer.

Collateral

A specific property or asset that a borrower pledges as security for the repayment of a loan. The borrower agrees that the lender has the right to seize and liquidate the collateral for the purpose of paying the debt if the borrower fails to repay the loan at maturity or otherwise defaults under the terms of the loan agreement. Examples of collateral include real estate, machinery, livestock, standing crops, and financial instruments. Jewellery and household durables are frequently used as collateral in pawning transactions.

Collateral substitutes

Alternatives to the physical assets that borrowers normally pledge as collateral for loans. These include third party guarantees (cosigners, group loans), interlinked contracts tied to product, input or labour markets, and the threat of loss of future borrowing opportunities.

Collection agency

Company that specializes in collecting bad debts for companies or lenders requiring this service.

Collection letter

A letter sent by a creditor to a debtor requesting repayment.

Collection ratio

There are several definitions but the most commonly used is: The ratio between loans due and repaid and total loans outstanding.

Comaker (cosignor)

A person, other than the borrower who signs a note and is responsible if the borrower fails to pay on time.

Commercial bank

A privately owned banking institution licensed to offer a variety of financial services to the public with the objective of earning profits for the owners or stockholders.

Commercial bills

Short-term instruments that are used mainly to finance trade. Examples are promissory notes, by which debtors commit themselves to pay to creditors or to their order a stated sum at a specified date, and bills of exchange, which are drawn up by creditors and are accepted by debtors.

Commercial paper

A money market term for short-term borrowings of banks or companies with a maturity of 2 to 270 days.

Common bond

A requirement in credit unions that members be united by a common bond of occupation, membership in the same association or residence in a specified geographical area.

Community insurance

A form of savings in which villagers contribute rice into local storage that can be distributed on a loan basis in time of scarcity. Also referred to as village rice banks.

Comparative advantage

A theory used in international trade to describe the situation in which two or more regions or countries will profit from exchanging goods or services.

Compensating balance

The practice of banks to request borrowers to maintain a specified deposit balance as part of the terms for obtaining a loan.

Compound interest

Interest periodically computed on the original principal and previously accumulated interest.

Concessionary lending or loan terms

Loans made at terms and conditions better or easier than standard commercial rates.

Conditional bill of sale

A sale made with the understanding that the title to the goods sold does not pass to the buyer until the bill is paid. If there is default, the seller has the right to reclaim the goods.

Consignment buying

Goods provided by a producer, manufacturer or wholesaler to a retailer with the understanding that all unsold goods may be returned at no loss to the retailer.

Consolidation loan

One loan used to combine several debts into one, usually to reduce the interest rate paid or to extend the life of a loan.

Consumer credit or financing

Credit granted by retailers, banks and finance companies for the purchase of goods used primarily for personal or household purposes.

Consumer debt

Money owed by individuals for consumption purposes as distinguished from production or business debt.

Consumption credit

Loans taken for consumption purposes. They may be given by landowners to their workers, or by merchants and shopkeepers to their customers. Term is also common in relation to cooperative savings and credit societies.

Contestable market

A market where there is freedom of entry and exit is costless. Potential entrants can enter such markets whenever profits exceed the normal rate. Considered important in developing efficient, low-cost financial services.

Contingency

Something likely but not certain to occur; dependent upon an uncertain future event.

Contingent claims

A claim that may or may not ever become an obligation or debt.

Contingent liabilities

An obligation which is conditional upon the finalization of certain transactions, or that may arise because of a future event considered possible but not probable. Cosigning for a loan, for example, represents a contingent liability.

Contract

Agreement made without duress between two or more parties to do or abstain from doing some act. May be enforced by legal means or by traditional cultural norms and expectations.

Contract farming

A farmer promises/contracts with a buyer to raise a crop which the buyer will purchase at harvest at either market prices or a previously agreed upon price.

Contract interest rate

Actual interest established on a promissory note.

Contract lending

Informal loans made by agribusinesses or processing firms to farmers who agree to deliver their products to the lenders at harvest time. See contract farming.

Contract theory

The study of contracts of which the principal-agent theory is an important area for analyzing financial relations and transactions.

Contractual savings

A saver voluntarily enters into a commitment to make predetermined payments into a savings system at certain dates and on certain terms.

Contractual savings institutions

Occupational pension funds, national provident funds, life insurance companies, and similar institutions that collect long-term savings on a contractual basis.

Contribution club

Another name for a ROSCA.

Cooperative bank

A bank that is owned cooperatively and formed to lend funds primarily or entirely to cooperatives.

Cooperatives/credit unions

Organizations that operate for the purpose of rendering an economic service for the benefit of their owners or members. Operate under specific conditions or co-operative principals including: 1) open and voluntary membership, 2) democratic control, 3) limited interest on shares, 4) return of surplus to members, 5) cooperative education and 6) cooperation among cooperators. Credit unions are cooperatives in which the members pool their savings for use in lending to members, and sometimes, nonmembers.

Corporate central credit union

In the United States, a credit union whose bond of association includes only other credit unions. This type of organization provides the same types of services as a central finance facility.

Correspondent bank

Bank that accepts deposits from or performs banking services for other depository institutions.

Correspondent credit union

A credit union acting as an agent and processing transactions for members of another credit union under a service agreement.

Corruption

Illegal acts such as loan officers charging bribes from loan applicants in return for granting them loans.

Cosign or countersign

A signature by a responsible person vouching for the reliability of a buyer or borrower. See comaker.

Cost of funds

Dividend and interest expenses divided by the average balance of total assets.

Cost-reducing innovation

A new product or way of performing a function that reduces the cost of providing a product or performing a service.

Counterpart funds

Local currency funds used in conjunction with foreign or donor funds to finance special projects. Often such funds, in local currency, are derived from the sale of donated goods.

Credit

1) Arrangement to receive cash, goods, or services now and pay in the future. 2) An entry recorded on the right side of an accounting ledger as a debit.

Credit agency or bureau

A reporting agency that acts as a clearing house for credit records. This information is used by lenders to help determine the creditworthiness of a potential borrower.

Credit allocation

Setting a target or quota for lending to a particular sector or group of borrowers.

Credit analysis

The study of a credit or loan application including the background of the applicant, the purpose for the loan, collateral, and debt repayment capacity.

Credit application

See application for a loan.

Credit associations

A form of non-rotating savings and credit association in which the participants agree to contribute variable amounts of savings for an unspecified time period.

Credit ceiling

A limit on the amount of credit which can be extended by specific financial institutions in a period of restrictive monetary growth.

Credit committee

Committee of a cooperative or credit union, elected by the members, that is charged with the review of loan applications of members.

Credit constraints

Lack of access to sufficient credit to finance desired operations or investments.

Credit contract

An agreement between a borrower and lender which specifies the terms and conditions of a loan. The agreement may be a formal legal document or an informal agreement between the participants.

Credit cooperative

See credit union.

Credit delivery system

System used by a lender to issue loans to borrowers and arrange for them to be repaid.

Credit enhancement

Increasing the creditworthiness of a loan, security issue, or other instrument.

Credit facilitators

A method used in Sri Lanka to link informal credit sources to the institutional banking system. In the Praya Naya Niyamaka Scheme, two state banks lend funds to persons of proven creditworthiness who agree to lend informally at prescribed terms and conditions.

Credit history

A record of a borrower's debt commitments and information about how well past commitments have been honoured.

Credit in kind

Credit provided in goods, such as production inputs or consumer goods, rather than cash.

Credit insurance

Insurance issued on loans made that will under specific circumstances pay off accounts that are proved uncollectible or pays a disabled debtor's payments until the debtor recovers or the debt is paid.

Credit investigation

Study conducted by a lender to verify the information supplied by a loan applicant.

Credit layering

The process of passing funds through several financial institutions before they are on-lent to the final borrower. Results in higher costs as each layer requires some income to cover its costs.

Credit limit

Maximum amount of credit available to a borrower at any one time.

Credit market failure

See market failure and imperfect capital markets.

Crédit mutuel

A grassroots level savings and credit organization operating on similar principles as cooperatives.

Credit need

The amount of credit it is assumed that a person or household requires in order to take some action such as adopting a new technological package.

Credit policy

The procedures that a financial institution follows with respect to the granting and recovery of loans.

Credit project

Group of activities developed by a country or donors designed to increase the supply and/or reduce the interest costs of loans to a particular sector or group of potential borrowers.

Credit quota

Minimum amount of loans that a financial institution is assigned to lend to a particular sector or groups of borrowers.

Credit rating

A lender's evaluation of a borrower's capacity to repay loans.

Credit rationing

The condition of loan markets in which the lender's supply of funds is less than borrower demand at the quoted loan contract terms so some loan applicants receive less credit than demanded.

Credit report

See Credit History.

Credit reserve

An unused opportunity to borrow that may be used at a future date. Often involves reciprocity in informal finance.

Credit risk

1) Possibility of loss to a lender resulting from the nonpayment of credit extended. 2) Estimation of a borrower's likelihood of repayment, as reflected in credit rating and history.

Credit sale

A sale made on credit with repayment according to agreed terms.

Credit scoring system

A method used by a lender to establish or rate a credit applicant's creditworthiness.

Credit standing; creditworthiness

A creditor's evaluation of a customer's past and future ability and willingness to repay debts.

Credit union

A particular form of cooperative savings and credit society that conforms to structure common in the international credit union movement, represented by the World Council of Credit Unions (WOCCU). A key feature is that members should have a common bond other than the credit union itself.

Credit union federation

Organization of credit union leagues, usually in reference to such groupings by countries that are members of the World Council of Credit Unions.

Credit union league

An organization of credit unions within a state of the U.S. known in Canada as Provincial Centrals, and in French-speaking Canada as Regional or Provincial Federations, as well as other parts of the world. They provide a variety of services to their member credit unions and represent the political base for their respective national Credit Union/Caisses Populaires organizations: the Credit National Association in the U.S., the Canadian Co-operative Credit Society in English speaking Canada, and La Confederation des Caisses Populaires d'Economie Desjardins du Quebec.

Creditor

One to whom a debt is due by a debtor.

Crop credit

A production loan in which the crop financed is offered as collateral.

Crop insurance

Insurance that is sold to provide some compensation to farmers who suffer loss from an insured event.

Crop lien

A standing crop pledged as collateral for a loan.

Cross-subsidize

The procedure used in a firm or financial institution to charge one customer enough for a good or service to earn a large or supernormal profit so another customer can be charged too little.

Crowding out or crowding out effect

Any displacement of private economic activities by the public sector which reduces funds available to private borrowers, increases interest rates and causes a decrease in the private sector economic activities.

Curb market

A term used for informal finance, particularly in Asia.

Currency

Paper money and coin issued by a government which circulates as a legal medium of exchange.

Current asset

An asset convertible into funds on short notice.

Current liability

An amount owed to a creditor payable within a short period of time, usually one year.

Current ratio

A generally accepted measure of short-term solvency and is expressed as the ratio of current assets to current liabilities. It is a measure of short-term debt paying ability.

Debt

Money, services or materials owed to another as the result of a previous agreement, such as granting a loan.

Debt capacity or debt carrying capacity

The total amount of debt that can be supported given the assets and earnings capacity of the borrower.

Debt-equity ratio

This measure relates total debt to share-holder's equity. The numerator includes all forms of debt and the denominator measures total net worth.

Debt-equity swap

An agreement between a lender and borrower to convert part or all of the borrower's loan into equity held by the lender.

Debt financing

Long-term borrowing of money for the purpose of obtaining working capital or other funds necessary for operational needs or for the purpose of retiring indebtedness.

Debt ratio

Ratio of total liabilities to total assets.

Debt restructuring

Changing the maturity and/or terms of a loan.

Debt service

The aggregate amount of amortization, interest and other charges paid on debt.

Debtor

One who owes money or is under some obligation to another.

Decentralized banking

Bringing financial services, including decision-making authority, closer to customers, particularly in rural areas.

Declining balance

Decreasing amount owed on a debt as regular payments are made.

Default

Failure to perform a previously agreed obligation; often the failure to pay or meet the obligations of a loan agreed to at the time the loan was made.

Default risk

The risk that a debtor may not pay obligations when due to a creditor.

Delinquency

Failure to pay a loan when due.

Delinquent loan

A loan that is past due in the payment of interest and/or principal and for which no satisfactory repayment arrangement has been made.

Demand deposit

Deposit in a deposit-taking institution that is payable on demand with no prior notice of withdrawal needed.

Deposit insurance

Insurance that partially or fully protects depositors against losses in the event of failure of the financial intermediary that holds the deposits.

Deposit mobilization

The process of actively soliciting deposits by a financial institution.

Deposit rates

The rates of interest that are paid on deposits held in financial institutions.

Deposits

Money balances due to depositors who have placed funds in a financial institution in checking, or savings and thrift accounts.

Depreciation

An estimation of the amount by which an asset deteriorates or wears out over its estimated useful life. Depreciation for the accounting period is charged to income either directly or indirectly.

Deregulation

The process whereby the regulatory authorities reduce the amount of controls or regulations that financial institutions must observe.

Development banks

Specialized banks, often wholly or partly owned by governments, that are created to meet specific financial needs such as lending to agriculture or industry, not adequately met by existing banking structures.

Development finance institutions (DFIs)

Financial intermediaries that emphasize the provision of capital (loans and equity) for development for particular sectors such as industry, agriculture, or housing. Most provide only medium and long-term capital. Some that specialize in agriculture also provide short-term finance.

Director

One of several persons elected by membership or shareholders to govern or control the affairs of a cooperative/credit union or corporation.

Disadvantaged groups/rural poor

A segment of the population believed to be deprived, often of credit, and therefore made the subject or target of special programs and policies.

Discount

1) Difference between stated or regular price and actual price. 2) A reduction from the face value of a financial contract.

Discount, to

To discount a bill means to buy it for less than its face value, the difference between the price paid and the face value representing the implied rate of interest receivable by the purchaser, during the period before the bill is repaid. Also refers to the process of a central bank discounting loans made by financial intermediaries.

Discount loan

A loan on which the interest payable over the life of the loan is subtracted from the initial loan principal. The net amount is disbursed to the borrower. The total loan principal plus interest is divided into equal installments for repayment.

Discount mechanism or facilities

Facilities that central bankers provide through which banks can temporarily borrow funds. Originally provided in the central bank role of lender of last resort but frequently used in developing countries as a means to increase lending to priority sectors and borrowers.

Discount rate

1) Interest rate charged by the U.S. Federal Reserve Banks to eligible depository institutions borrowing funds for short periods. 2) Rate at which a central bank (re)discounts certain bills for financial institutions.

Disintermediation

Shift of funds away from some financial instruments into others or into other forms of investment in order to gain a higher return, such as reducing the savings deposited in financial institutions and making more direct investments in stocks and bonds.

Distress borrowing

Borrowing in a situation of extreme need when there is no other alternative, often at a higher than normal rate of interest.

Distressed loan

Loan on which repayment of interest and principal has been severely delayed or completely suspended.

Diversification

Limiting the risk of investment by spreading money among different financial assets, or making multiple types of loans to multiple types of customers.

Diversification economies

Reducing risk costs through the diversification of assets or liabilities.

Diversion

The use of loan proceeds for purposes other than stated to the lender when the loan was approved.

Dividend

Sum of money paid on investments to shareholders as a percent of earnings.

Djanggis, djangies or njangis

A name given to ROSCAs in Cameroon.

Domestic savings

Savings of a nation not counting foreign loans.

Down payment

An initial cash payment paid towards the purchase of a product with the remainder to be paid according to terms agreed upon with the seller.

Due date or maturity

The date on which a debt instrument becomes payable.

Earning assets

Assets such as loans and investments that earn a return or income for a financial institution.

Economic dualism

An economy that has two sectors - for example, modern and traditional -that coexist in a country at two quite different levels of development.

Economic rate of return

An estimation of the internal rate of return for a project or investment based on the economic cost or values of the factors of production used in the project. Those costs are adjusted to reflect their true scarcity value so that the project so analyzed measures its increment to national income.

Economies of scale

A reduction in per unit costs as the volume of operations increase; that is, an equal percentage increase in all inputs leads to a greater percentage increase in output.

Economies of scope

Reducing per unit costs by a firm producing multiple rather than single products or services, such as a financial institution both mobilizing deposits and making loans.

Effective interest rate

Actual cost of borrowed money, including interest plus all other related costs associated with borrowing, usually expressed as a percentage rate.

Effective subsidy rate

The amount of an interest rate subsidy measured as a percent of net value added in agriculture.

Efficient market theory

A market is said to be efficient if transaction costs for buyers and sellers are low and information on new developments is communicated quickly to all participants so that market prices quickly reflect the information.

Ekub

Name given to ROSCAs in some African countries.

Electronic banking

Banking transactions using computerized equipment.

Employee credit union

A credit union in which employment provides the common bond that is required for the organization of a credit union. This is one of many types of common bond observed in the credit union movement.

Encumbered property

Property to which one holds a title but against which another has a claim or interest.

Encumbrance

Claim, lien, interest in, or right to property which prevents it from being sold with a free and clear title.

Enforcement technology

The techniques used to enforce contracts. Includes the techniques used by lenders to recover loans.

Entrepreneur

One who assumes financial risk of initiation, operation, and management of a business or undertaking.

Equity

1) Ownership interest of members or stockholders of a company. 2) Investment rights in a company. 3) Net Worth or total assets less total liabilities. 4) Amount property is worth above and beyond amount owed.

Equity financing, equity investment

1) Raising capital for a corporation by selling stock. 2) Investment that confers whole or partial ownership in an enterprise and entitles the investor to share in the profits from its operation.

Equity market

The market in stocks and shares.

Escrow

1) Funds to be paid by a second party to a third party for expenses on property held by the first party. 2) Funds deposited with a third party to be paid to the second party upon meeting conditions set by the first party.

Esusu

Name given to ROSCAs in some African countries.

Excess liquidity

Financial intermediaries maintaining a greater degree of liquidity than is normally prudentially desirable. May be due to lack of demand by borrowers or risk averse behaviour by lenders who prefer to make non-loan investments.

Excess reserves

The excess of reserves against bank deposits over the minimum legally required reserves.

Exchange rate

The ratio at which the currencies of two countries are exchanged.

Explicit interest

Interest that is formally stated in a loan contract.

Export finance

Loans to facilitate sales to a foreign country such as a commercial letter of credit.

Extension

Agreement with a lender to allow the borrower to decrease the payments on an outstanding debt and increase the period of time before the debt is fully paid.

External financing

Obtaining financing from any means other than internal finance or retained earnings.

Factoring

A financial service that buys accounts receivable from companies and then acts as the principal in collecting them.

Farm budget

A projection of a farm's cash flow including incomes and expenses often used to estimate credit demand and the net benefit of a project designed to assist farmers.

Farm investment analysis

Analysis of a farm to determine the financial feasibility of making a particular investment.

Feasibility study

Structured approach to collect and analyze information needed for confident decision-making about a proposed project to determine if it is capable of being done, is practical, or will be profitable.

Federated cooperative

A cooperative whose members are smaller cooperatives.

Federations

Refers to groupings of caisses populaires, credit unions or other savings and credit societies within a region or a country. The term 'league' is used in the United States.

Fidelity bond

Guarantee of a person's honesty which provides indemnity against embezzlement or negligence.

Finance charge

Total cost of a loan repaid according to schedule including interest, credit investigations, application fees, and other costs.

Finance company or corporation

Companies engaged in making loans to individuals and businesses, but often limited to large loans in many countries.

Financial asset

An asset in the form of a financial instrument, such as cash, checking account, time deposits, stocks and bonds.

Financial deepening

Acquisition of financial assets at a faster rate than non-financial assets. Reflect the stage of financial development of a country.

Financial dualism

Financial systems that operate at different levels of development, one modern and one traditional, in a country. Some persons and firms in the country, such as the rural poor, may have access to only the traditional while others can access the modern system.

Financial frontier

A term coined to describe the conceptual point where formal financial transactions end and informal transactions begin.

Financial futures market

A futures market where only financial instruments are negotiated.

Financial information system

A regular system of collecting, analyzing and monitoring data useful for assessing the performance of a single financial intermediary or entire financial system of a country.

Financial innovations

An innovation in the financial field. See innovation.

Financial institution

An institution that uses funds primarily to purchase financial assets rather than tangible property.

Financial instrument

Any document which is evidence of a debt and can be transferred from one owner to another.

Financial intermediary

A financial institution that mobilizes savings and allocates them to borrowers, then collects the loans and repays the savers.

Financial intermediation

The process in which a financial institution mobilizes deposits from savers and allocates them to borrowers.

Financial lease

An alternative to purchasing in which the lessee obtains an asset (often equipment) from a lessor for a fixed period of time, assumes liability for maintaining it and pays a lease payment large enough to amortize the lessor's capital outlay.

Financial liberalization

A process of reducing the rules and regulations that affect financial institutions.

Financial market

Market for the exchange of capital and credit in the economy. It is divided into money market and capital market.

Financial rate of return

An estimation of the rate of return for a project or investment based on the actual or expected costs of the factors of production used in the project. These costs may differ for the individual or entity for which the analysis is conducted because the costs may differ from their true scarcity values due to distortions, restrictions and subsidies in the economy. See economic rate of return.

Financial ratios

Ratios which show relationships between various items appearing in balance sheets and income statements. Used to evaluate the economic condition and efficiency of a firm or financial institution.

Financial reporting period

Usually the fiscal year of a project or business but may be defined for a shorter period.

Financial repression

Distortions in the financial system including negative interest rates, subsidized interest rates to some privileged borrowers, selective credit allocation, and excessive bureaucratic control over the financial system.

Financial risk

Risk associated with the mix of debt and equity used to finance a business or household. The larger the debt, the larger the financial risk.

Financial savings

The portion of total wealth held in the form of financial assets.

Financial shallowing

Opposite of financial deepening.

Financial solvency

See solvency.

Financial spread

See gross earnings margin.

Financial statement

Written record of the financial condition of a firm or household usually containing a balance sheet and income/expense statement showing the financial status and the results of operations.

Financial structure

Refers to the distribution of assets that are owned versus borrowed in a firm's total assets.

Financial viability

The ability of a firm to continue to survive and operate over the long-term because income is sufficient to cover costs. See viability.

First mortgage

A mortgage on a property which is not subject to any other mortgage.

Fiscal year

The twelve-month accounting period adopted by a firm or agency.

Fixed assets

Tangible assets (movable and immovable) held by a firm and used in its normal operations for the production of goods or services. Normally not converted into funds during the period after which they were declared fixed. Typically these assets include land, buildings, orchards and vineyards.

Fixed costs or expenses

These expenses or costs include depreciation, taxes, insurance and interest on long-term debt that remain relatively constant regardless of level of production or output.

Fixed liability

Liabilities that will not mature during the accounting period. Usually not maturing for several years.

Floating or variable-rate loans or mortgages

Loans and mortgages with interest rates that can vary over the life of the loan in accordance with the cost of funds or some predetermined index.

Forbearance agreement

Verbal or written agreement that stipulates a lender will delay exercising its rights (such as foreclosing on a loan) so long as the borrower performs certain agreed upon actions.

Forced or involuntary savings

Situation in which households or firms are prevented from consuming at desired levels because of taxes on income.

Foreclosure

Legal process whereby the mortgagor of a property is deprived of legal interest in it, usually by means of a court-ordered sale, and it is transferred to the mortgagee.

Foreign currency loan

A loan repayable in a foreign currency, regardless of the currency or form in which the loan was received.

Foreign exchange risk

The risk of change occurring in the foreign exchange rate between the time a loan is made and when it must be repaid.

Foreign portfolio investment

Investment by foreign residents in domestic capital markets, but without the investor providing the technology and management that usually occurs with foreign direct investment.

Forfaiting

A service offered by specialized subsidiaries of large banks that involves the bank discounting a note issued by an exporter used goods sold to a buyer who is suspected of being slow or erratic in payment.

Formal credit or finance

Loans obtained from a formal financial intermediary rather than from the non-regulated informal sector.

Formal sector

That part of the economy that is enumerated in national statistics and is counted in the gross national product. See informal sector.

Fragmented financial markets

Markets in which firms and households are so isolated that they face different effective prices for financial services.

Fraud

The intentional misrepresentation of the truth or an act of deception to deceive another person. An example is a Ponzi scheme.

Free and clear

A phrase commonly used in real estate to indicate that a property is free from all liens, mortgages, charges and debt.

Free and open market

One in which price is determined by the laws of supply and demand.

Freedom of entry

A lack of barriers that permit a new firm to enter the market for a good or service.

Full service bank

Bank providing a wide range of services to clients.

Fully amortizing loan

Loan with payments allowing principal and interest to be paid in equal installments during the term of the loan.

Funds flow analysis

See cash flow analysis.

Fungibility

The interchangeability of things that are identified or uniform, such as commodities and money. Because of fungibility, the use of a loan may not be clearly related to the purpose for which it was obtained. For this reason it is difficult to clearly determine the impact of a credit project.

Gearing or leverage

A term used to describe the relationship between the debt and the equity of a firm. A "highly-gearred" company has a high proportion of debt relative to equity.

Gearing ratio

See leverage ratio.

Gender bias

The argument that financial institutions do not provide financial services to all persons regardless of gender.

Generally accepted accounting principles (GAAP)

Conventions, rules, and procedures governing accepted accounting practice. In the U.S., these are specified by the Financial Accounting Standards Board.

Government debt instruments

Debt instruments issued by governments.

Government paper

Short-term debt instruments issued by governments.

Grace period

The lapse between the date of the loan disbursement and the date the first payment is due. Can also mean the time period when only interest is paid and a "grace" is allowed on principal.

Graduated payment mortgage

Mortgage in which early payments are reduced, then gradually rise to a level payment after a few years.

Grameen Bank

A specialized bank for lending to the poor in Bangladesh.

Gross earnings margin; Gross margin; Banker's spread; Banker's Mark-up

Defined as interest received on loans less interest paid on deposits plus other income (interest received on investments, gains or losses in foreign exchange operations and commissions and fees received and paid).

Gross income

Total receipts or revenues received by an enterprise before any expenditures are deducted.

Gross margin

Difference between selling and buying prices, usually indicated as a percentage of selling price.

Gross profit

Total profit before deduction of expenses, taxes, rents, etc.

Gross spread

Yield on assets minus cost of funds.

Group guarantee

An arrangement in which the members of a group agree to repay the loans made to other group members in the event of default.

Group lending or liability

The process of lending to a group of borrowers in which the group collectively agrees to be liable for loan repayment of any one of the members. See peer group pressure.

Group savings guarantee fund

A fund collected from members of a group that is deposited in a financial institution for use as a guarantee for loans made to individuals in the group.

Guarantee

An agreement by a guarantor to meet the loan commitments of a borrower in total or in part if the borrower does not fulfill the agreement. Guarantees may be in the form of collateral (pledge assets) or in an intangible form such as personal commitments to repay.

Guarantee fund

A fund created to cover loan losses. Created out of earnings or by special allocation of a government or a donor agency trying to stimulate lending to a type or class of customers that financial intermediaries consider risky.

Guaranteed loan

A loan for which a third party (guarantee fund) guarantees repayment in case the borrower fails to repay.

Guarantor

Person or organization promising to be responsible for debt or default of another.

High-risk loan

A loan that a lender considers to have a larger than average probability of default.

Highly leveraged

A firm or household having a high debt-equity ratio.

Hire purchase

A term used especially in the U.K. for purchases made on time payments or on an installment plan.

Hire-purchase finance companies

Financial institutions that engage in the business of hire purchase credit sale and leasing. A common form of organization in India in which a company extends finance for the purchase of goods and vehicles and then recovers the principal and interest over a period of time.

Hoarding

Accumulating items beyond normal need often as speculation against price rises.

Hui

Name given to ROSCAs in some Asian countries.

Hypothecate

Pledge property or security without actual transfer of possession.

ljon

A method similar to Tebasan in Indonesia except that the farmer sells his crop long before harvest at a price that is quite low relative to the regular market price at harvest time. The buyer is responsible for protecting the crop from pests and thieves, and bears the costs of harvesting and transportation.

Illegal or Illicit

Forbidden by law.

Illiquid

Not easily convertible into cash. When a financial organization is unable to meet demand for funds.

Illiquidity preference

Desire to give up liquidity in which a person or household chooses to hold assets in a less liquid form such as land, buildings, or inventories rather than as cash or more liquid financial assets.

Imperfect capital markets

A type of market failure in which capital markets do not exist so that savings are not efficiently mobilized and allocated to businesses and firms that have unfunded projects which would produce a high rate of return.

Import finance

Loans to facilitate the purchase of goods or services from foreign suppliers.

Income

An amount of gain or benefit in return for an investment of labour or resources.

Income generating activities

A term frequently used by donors to describe project activities that generate income for the participants.

Income statement

A report or summary of a household's or firm's revenues, expenses and income or loss for a period of time. Synonymous with profit and loss statement.

Incumbrance

See encumbrance.

Indebtedness

The state of being in debt.

Indexation

A mechanism for compensating periodically for inflation by adjusting the nominal value of contract in line with movements in a specified price index.

Indexed loan

Loan whose principal and/or interest rate is adjusted in line with inflation.

Inflation

Increases in the general price level of goods and services over time commonly measured by a consumer price index.

Inflated premium

A premium added to a security to cover the loss of purchasing power due to inflation.

Informal credit or finance

Financial activities which take place outside the formal financial markets. Often not subject to the same degree of regulation as formal finance.

Informal sector

Involves activities outside of the formal economy such as trading by street vendors, selling of home made products, subsistence farming, home craft production, backyard carpentry and metal working, and other activities not enumerate in national statistics and not counted in the gross national product.

Innovation

Adoption of a new or different product or method designed to be better quality, less costly or have some other desirable attribute.

Insolvency

Condition in which liabilities exceed the current market value of assets owned; the inability of an individual or organization to repay current obligations.

Installment credit or loan

A credit plan with specific payments spread over a time period of several months or years which permits the seller to reacquire the item sold if the buyer defaults.

Institutional credit

See formal credit.

Interlending

Lending between financial institutions.

Interest

1) An amount paid for the use of capital. 2) The amount earned on invested capital. See compound and simple interest.

Interest capitalization

Converting deferred interest payments into new debt instruments or added to the value of the initial capital.

Interest earned but not collected (Interest receivable)

Interest on loans and investment securities not collected in advance but due and payable at specified future dates.

Interest expense

An item included in accounting statements of financial institutions that measures all interest paid on deposits, debt, debentures, notes and other instruments that provide funds used by the financial institutions.

Interest expense

An item included in accounting statements of financial institutions that measures all interest collectible on loans, leases or similar instruments that generate financial returns for the financial institution.

Interest rate

The amount of interest paid for per unit of time as a fraction of the balance or principal expressed as a percent.

Interest rate ceilings

Maximum limits placed on interest rates paid to depositors or charged to borrowers. Also called usury laws.

Interest rate deregulation or liberalization

Reducing or eliminating the regulations that determine what financial intermediaries can pay or charge for interest rates.

Interest rate risk

Risk caused by fluctuations in the general level of interest rates.

Interest rate sensitivity

The responsiveness of financial intermediaries or their customers to changes in interest rates.

Interest rate spread

A difference in interest rates. Could be between borrowing and lending rates, or between loans or bonds with different maturities.

Interest ratio

Relationship between the principal amount of a loan and the total amount of interest paid or to be repaid on a loan. Used when the total cost of a loan is more important than the length of the loan.

Interlinked markets or transactions

Transactions in which two economic agents contract to engage in some activity which involves more than one market. Concept used to analyze for example, cases in which a landlord supplies credit to and buys output from tenant farmers.

Intermediary or Intermediation

See financial intermediation.

Internal rate of return

The discount rate that makes a project's net present value equal to zero.

Inventory

Assets of a business that are intended for sale.

Inventory turnover ratio

A measure of a firm's control of inventory measured by dividing the cost of goods sold by the value of the average or ending inventory.

Invest

Commit capital to an activity with the expectation of profit.

Investment

1) Anything acquired for the purpose of producing income. 2) As used in financial institutions, the surplus cash deposited in other organizations to draw interest or dividends.

Investment bank

Institution that accepts new issues of stocks from a corporation and attempts to sell them to the public at a profit.

Investment yield

Annualized ratio of investment income divided by average balance of investments.

Iron law of interest rate restrictions

Theory to explain credit rationing. When interest rate ceilings become more restrictive, the size of loans granted to non-rationed borrowers increases, while the size of the loans granted to rationed borrowers decreases.

Isusu

One of the names given to ROSCAs in Africa.

Iwofa system

The pledging of cocoa trees as collateral for loans in Nigeria.

Joint and several liability

The liability of two or more persons arising from their association with regard to a contract or other legal relationship. Used to refer to the fact that members of groups, both individually and as a group, share loan repayment obligations. See group lending.

Joint venture

Legally binding consolidation of resources of two or more persons or organizations using their common resources in a common enterprise or business.

Julian date

Number of days which have passed since the beginning of the year. Used in computing loan interest and delinquency.

Junior debt; Subordinated debt

Debt which, in case of liquidation, cannot be paid until payments on other obligations have first been paid. Opposite of senior debt.

Junior mortgage

Second or third mortgage subordinated to a first mortgage that has prior claims on a borrower's assets.

Kafo, Kaffo

Village association in The Gambia that engages in community projects often involving the mobilization of savings from the members. May operate as a ROSCA.

Key money rate; Central rate

The term used to describe the main interest rate in a country set by the central bank (or equivalent) and which effectively governs other market interest rates.

Kou

Name given to group savings and loan associations in Japan.

Land pawning

Process of informal lending found in Asia, in which an individual obtains an informal loan by temporarily surrendering to the lender the right to use the land. The lender can farm the land until the loan is repaid.

Late charge

Special fee or assessment for loan installments paid after a specified due date.

Late payment

A loan payment made after due date, upon which additional charges may be imposed.

Lead bank scheme

System used in India and Nepal in which one bank in a region assumes responsibility for trying to develop a strategy for the region's economic development.

Lease

An agreement whereby the lessor conveys to the lessee in return for the payment of a rent or lease payment the right to use an asset for an agreed period of time. A lease may be an operating or a financial lease. See operating lease and financial lease.

Lease-purchase agreement

Agreement providing that a portion of a tenant's rent or lease payment can be applied to purchase of the property.

Legal rate of interest

Maximum rate of interest which can be charged as specified by law or rules of the Central Bank or other regulatory authority.

Lender of last resort

Term given to the agency or central bank that lends to individual banks whenever they experience large withdrawals. Also a lender to whom borrowers can go to when all other sources have failed.

Lending authority

The amount of money that the bank can lend, based on its paid-in capital. Also the amount of loan a branch can approve without getting authorization from regional or head offices. See loan authority delegation.

Lending ceiling; Credit limit

The maximum amount that an organization can lend. May be a global limit or the amount that can be lent to a single customer or sector.

Lending conditions

Conditions of a loan including interest rate method for collecting interest charges, length of loan, number and frequency of installments, and finance charges required of the borrower.

Lending costs

The non-interest costs of making and recovering loans.

Lending institution

An organization that lends money and earns income by advancing money to others.

Lending targets

Goals established for financial intermediaries regarding the amount to lend to specific sectors of the economy or groups of borrowers.

Lessee

One to whom a lease is granted. The person holding and using property by lease.

Lessor

One who grants a lease; the owner of property who grants a lease for someone else to use it.

Letter of credit

Document issued on behalf of a buyer giving the financial backing of the issuing bank to the value of the letter, based on the security of the buyer's financial condition. Used in foreign trade when a bank guarantees that certain drafts drawn by an importer will be honoured. The letter usually specifies the period in which it is effective, the quantities and kinds of merchandise to be shipped and the maximum credit allowed.

Level repayment

Loan repayment plan in which repayments or loan installments are set at a fixed level, even though the interest rate may change.

Leverage or gearing

Use of borrowed funds by a person or firm to increase the purchasing power and the total amount of resources used by the household or business.

Leverage ratio (U.S.); Gearing ratio (U.K.)

Ratio of debt/liabilities to equity/assets. Includes debt and debt-equity ratios. Measures the degree to which owners rather than lenders own the assets of the business.

Leveraged financing

Financing a transaction involving borrowed funds or debt securities.

Liability

An obligation owed by an individual firm or organization to pay an amount of money for a good or service received.

Liability management

Supervision and control of the claims on the assets of a firm or organization. Methods that financial institutions use to adjust the liability side of the balance sheets to meet their objectives in growth and composition of assets.

Lien

Claim which one person or financial institution has upon the property of another as security for debt.

Line of credit

An arrangement whereby a financial institution commits itself to a borrower to lend up to a specified maximum amount of funds during a specified period. A line of credit is usually negotiated at the beginning of a production period or year.

Linkage models

Models used by economists to analyze transactions which involve more than one market, such as a trader making a loan to a farmer in return for agreeing to buy a product at harvest. See interlinked markets.

Liquid assets

Assets easily converted into cash without significant loss of value.

Liquid liabilities

Money plus highly liquid money substitutes, such as savings deposits.

Liquidate

1) To convert assets into cash or to discharge or pay off an indebtedness. 2) To dissolve a business.

Liquidity

1) Ease with which an individual or company may convert assets to money. 2) In case of financial institutions represents ability to meet demand for funds, e.g. in Credit Unions it is usually measured as that portion of total assets not held in fixed assets, nor lent to members.

Liquidity preference

The preference of people to hold assets in cash rather than in a less liquid form.

Liquidity ratios

Ratios which reflect the borrower's ability to meet short-term obligations, including the acid-test ratio and the current ratio.

Liquidity reserves

Reserves held by a financial institution to guarantee the availability of funds to meet claims that creditors (depositors) make against it.

Liquidity risk

The risk of not being able to convert an investment into a liquid asset when desired.

Loan

Amount of money or other asset lent to a borrower that should be repaid with or without interest.

Loan application

Form that a prospective borrower fills out as a formal request for a loan.

Loan appraisal

Systematic procedure a lender uses to evaluate a loan application.

Loan authority delegation

The size of loan that a particular loan officer or manager can make without obtaining authority or approval from another person or office. See lending authority.

Loan brokers

Individuals who for a fee bring borrowers and lenders together in credit markets.

Loan closing costs or payments

Expenses incurred when a loan is completed and the proceeds paid to the borrower.

Loan collection

Procedures that lenders use to recover or collect loans when overdue.

Loan contract

Agreement with which one party agrees to lend money to another, incorporating the terms and conditions of the loan.

Loan delinquency

The failure to repay interest and/or principal on a loan when it is due.

Loan-deposit ratio

The ratio of total loans to total deposits. Used as a measure of bank liquidity.

Loan duration

Length of a loan.

Loan guarantee

Loan insured by the government or an insurance or guarantee fund but processed through a financial intermediary, usually at lower than market interest rates. Other guarantees may involve collateral or co-signers.

Loan in arrears

A loan for which one or more payments are overdue.

Loan officer

Person in a financial institution that handles lending operations.

Loan portfolio

The unpaid loans of a lending organization. See portfolio.

Loan procedures or processing

The steps that a lending institution follows in the process of making and recovering loans.

Loan protection insurance

An insurance program pays the balance of an insurable borrower's loan upon death of the borrower, subject to prevailing conditions as to age and amount. Often involves a group policy that covers all borrowers.

Loan rates

Interest rates charged on loans.

Loan recovery

The process of obtaining the repayment of loans made.

Loan recovery profile

Graphic representation of the cumulative value of payments received on loans outstanding.

Loan repayments

Repayments made against outstanding principal of a loan.

Loan rescheduling

See rescheduling of loans.

Loan servicing

All steps taken by a financial institution to maintain a loan from the time made until receipt of the last payment and cancellation of loan instruments.

Loan sharks

A term given to moneylenders who are believed to charge excessively high rates of interest on loans.

Loan submission

A package of loan application papers and other documents given to a prospective lender to review before making a mortgage loan. See loan application.

Loan substitution

The borrower's use of loan funds for purposes or uses that would have been undertaken with own funds if the borrower would not have received the loan.

Loan term

Time period granted for repayment of a loan.

Loan-to-value ratio

Ratio between the amount of a loan and the appraised value of the security for the loan, expressed as a percent.

Long term debt or loan

Liabilities due more than one year after the agreement. Generally, they are due in ten or more years.

Lottery

Some type of random approach to determine the order of receipt of an informal loan in a ROSCA. Also used to increase savings by conducting a drawing of savings accounts in order to give the saver a special gift or prize for his/her account.

Low interest loan

Loan made at a rate that is generally below the market rate for the particular type of loan and borrower receiving it.

Lump sum

A sales contract calling for a single payment instead of repayment through a multiple payment installment plan.

M1

A definition of money including currency outside banks plus demand deposits, excluding those held by government and banking institutions.

M2

A definition of money that includes M1 plus time and savings deposits (other than large certificates of deposit) at commercial banks.

M3

A definition of money that includes M2 plus deposits at non-bank thrift institutions.

Macroeconomic environment

The general conditions of the economy in which savers, borrowers, and financial institutions operate.

Margin

See also Operating Margin, Gross Margin 1) Value of collateral minus value of the related loan. 2) The gross profits of a financial institution measured by the difference between average deposit and lending rates.

Margin requirement

The minimum deposit that an investor must make with a broker to purchase securities on credit.

Marginal pricing

A method of fixing the selling price (interest rate charged on loans) in relation to marginal costs (interest rate paid for funds mobilized).

Marginal propensity to consume

The increase in consumption related to an increment in income.

Marginal propensity to save

The increase in savings related to an increment in income.

Market

1) In general, a public place for buying and selling goods and services. 2) In economic, the sum of buyers and sellers of any goods or services and their interaction. 3) Any context in which the sale and purchase of goods and services can occur, including telecommunications or computer networks of buyers and sellers.

Market failure

The inability of the market to function in its normal manner.

Market links

See interlinked markets.

Market rate

1) A rate of interest determined by market forces of supply and demand rather than a central bank or other regulatory body. 2) A rate or price a well-informed buyer is willing to pay and a well-informed seller is willing to take.

Market risk

Risk related to fluctuations in the market that result in losses or gains of capital resulting from change in prices of assets and investments.

Market value of assets or property

The amount the property or asset will sell for if both seller and buyer are fully informed and the transaction is being conducted with neither being under abnormal pressure.

Marketing cooperative

One type of agricultural cooperative that is designed for the purpose of combining the production of a number of farmers in order to sell efficiently and meet consumer demand.

Mark-up

1) Difference between wholesale and retail cost of an item. 2) Increase over shelf price charged to non-member patrons in some cooperatives.

Matching

When the maturities and terms of assets coincide or are "matched" with those of liabilities.

Maturity mismatch

Having borrowings and loans with different maturity dates.

Maturity or maturity date

Date upon which a bond is scheduled to mature or on which the final payment for a loan is due.

Maturity risk

The risk the lender faces when the maturity structure of assets and liabilities differ such as occurs when most deposits are short-term for a lender making long-term loans.

Medium of exchange

Any commodity widely accepted in payment for goods and services and the settlement of debts.

Medium term loans

Loans made for a term longer than one year but normally less than ten.

Merchant bank

A European type of bank that engages in investment banking, counselling, negotiating mergers and acquisitions, and other services.

Merger

Formal unification or combining of two or more similar organizations.

MicroBanker

Microcomputer software package developed by FAO for use in banks to improve the efficiency of handling many small deposit and loan accounts.

Middleman

An agent, buyer, shipper, wholesaler, retailer, etc. who physically transfers and obtains title to products in the passage from producer to consumer.

Mobile banks

Motorized vehicles equipped as a small bank that can travel to remote locations or periodic markets.

Mobile loan officers

An idea attributed to the National Bank of Pakistan in which loan officers are assigned to village to improve loan recovery by making access to new loans an incentive to repay delinquent loans.

Monetary base

Assets a bank can use to meet required reserve deposits.

Money

Any currency, tokens, bank notes, or other circulating medium issued by a government as representative of value and accepted as a medium of exchange. Narrow definitions such as M1 refer to money used as a medium of exchange. Broader definitions such as M2 or M3 add to M1 the money that is used as a store of value.

Money clubs

Groups of persons who band together to make periodic contributions to a fund that is used for lending.

Money guards or money keepers

Individuals who hold savings on the behalf of others. Often no interest is paid on these savings but the money guard may be expected to make emergency loans to frequent savers.

Moneylender

A person who makes loans to another.

Money market

The market for short-term debt instruments, such as certificates of deposit, commercial paper, banker's acceptances, Treasury bills, discount notes and others. These instruments are liquid and tend to be safe.

Money shops

Quasi-banks operated by finance companies and banks in England, designed to be comfortable, informal and appeal to the private individual. Emphasis is on lending for home improvement and mortgage loans. Also used by the Philippines Commercial International Bank (formerly Philippines Commercial and Industrial Bank) to set up banking outlets close to public markets to provide small scale, high turnover deposit and loan services.

Money supply

Total amount of currency circulating in a country, generally demand deposits and money in circulation.

Moral hazard

The potential loss by a lender due to uncertainties and imperfections in markets. It arises from the character and circumstances of individuals rather than the inherent nature of the business. An example is a borrower taking a risky action unknown to the lender. (Term used more commonly in Insurance.)

Mortgage

Written instrument that creates a lien on property as security for the payment of a specified debt.

Mortgagee

One who takes a mortgage as security for a loan.

Mortgage insurance

Insurance that repays a loan on mortgaged property in the event of default by the borrower.

Mortgage loan

Long-term loan made for the financing of real estate.

Mortgagor

Owner of property mortgages as security for a loan.

Mujin

Small urban companies in Japan built on the traditional Kou (financial association) that provide savings and loan services.

Multipurpose cooperative

Cooperative which provides its members with a variety of services, perhaps from various premises but integrated as one cooperative structure.

Mutual aid funds

A type of savings arrangement in which members of a group contribute to a fund that is used to support the members in the event of unforeseen circumstances.

Mutual association

Savings association issuing no capital stock, owned and controlled solely by savers and borrowers.

Mutual savings banks

Banking organization without capital stock, operating under the law for the mutual benefit of the depositors. Similar to savings and loan associations in that they are designed to stimulate savings and by tradition or regulation specialize in making real estate loans.

Nationalization

The process by which a government assumes ownership and control of private firms.

Nationalized banks

Banks owned and operated in part or entirely by the government that once were privately owned and operated.

Near-money; Quasi-money

Assets which have properties resembling those of money. Includes savings deposits, time deposits, certificates of deposits, deposits in thrift institutions, etc.

Negative amortization

An increase in outstanding balance of a loan due to the fact that the periodic debt service does not cover the required interest charged on the loan.

Negative real rate of interest

An interest rate that is less than the rate of inflation.

Negative spread

When the cost of funds exceeds the income earned on funds.

Negotiable instrument

Financial assets that can be transferred from one owner to another.

Negotiable rate

A rate of interest that is not fixed but agreed upon by lender and borrower.

Net income

The gross income earned from all sources minus operating expenses, depreciation, interest, and other charges on debt, and taxes.

Net interest income

The residual after subtracting interest expense from interest income.

Net operating expenses

Operating expenses minus non-interest income.

Net operating income

Net interest income minus net operating expenses; reflects operating profitability/savings before extraordinary gains and losses, loan loss provisions, reserve transfers and interest refunds.

Net present value

The expected future payments or earnings received from a project or investment discounted by the marginal cost of capital to the business or firm.

Net profit

Gross profits less expenses.

Net working capital

The excess of current assets over current liabilities.

Net worth

Excess of value of assets over liabilities, representing owners equity in a firm.

Nidhis

A mutual benefit fund found in South India. It is a limited company designed to promote savings among the members and to provide loans to them that are secured by gold, jewellery of real estate.

Nominal interest rate

Interest rates stated as a percentage of principal to be paid or received in current or non-deflated currency.

Non-accrual status

When a borrower is placed on a non-accrual status, accrued interest is eliminated from the financial statement receivable balances and interest income is correspondingly reduced. While in non-accrual status, interest income is reflected in the financial statement only to the extent actually received in cash. Interest continues to be billed to the borrower on the original terms of the loan.

Non-accruing loan; Non-performing loan

Loan for which payment on interest has not been made for a minimum specified period, often set at more than 90 days.

Non-bank financial institutions

Financial institutions such as investment companies, insurance companies, pension funds, and mutual funds that mobilize savings and allocate them to generate a profit. These institutions tend to be more urban than rural in their location and orientation.

Nonearning assets

Assets other than loans and investments.

Non-farm enterprises

Economic activities other than traditional cropping and livestock-raising found in rural areas to generate income and employ labour.

Nongovernmental organizations (NGOs)

Private organizations often engaged in support of development in developing countries, including local and international organizations.

Non-interest income

Sources of operating income other than interest income from loans and investments.

Nonpayment

The failure to pay as agreed.

Non-regulated financial institutions

A variety of financial arrangements that are not regulated by the same institution that typically regulates and inspects formal financial systems, such as central banks and superintendencies.

Non-rotating savings and credit association

An informal financial group or ROSCA that does not automatically allocate the savings mobilized to one of the savers as a loan through an auction, lottery or other process.

Note

1) A signed promise by one party to pay another a certain amount at a specified place and time. 2) A bond with short- or medium-term maturity. See also promissory note.

Off-balance sheet activities

1) Business activities of banks, often fee-based, not generally involve booking assets and taking deposits, e.g. swaps, options, letters of credit. 2) A form of borrowing that will not be shown on a company's balance sheet.

Off-farm income

Income earned by members of farm households by working off the farm, including working as a labourer on another farm.

One-stop banking

A complete range of banking services offered in one place.

On-lending

Process of re-lending funds to borrowers often associated with donor projects. Funds are deposited in the central bank but the foreign bank and the contractual borrower (usually the central bank) agree that the funds will be lent to specified types of borrowers within the country of the borrower.

Open-account credit

Credit arrangement frequently used by retailers whereby customers may purchase goods at any time up to a certain limit, payable either in 30 days with no interest or in monthly payments based on the account balance plus interest.

Open-end credit

A line of credit that may be used repeatedly up to a certain limit. Synonymous with charge account or revolving credit.

Open-end lease

Lease which may involve an additional payment by the lessee based on the value of the property when returned.

Open-market operation

A transaction by a central bank in the securities market that has the effect of supplying reserves to, or draining reserves from, the banking system to influence the amount of money in the economy and credit flows.

Operating expenses

These expenses or costs include non-capital expenditures that are incurred in the current accounting period and that vary with the level of production or output. In farming, they include seed, fertilizer, chemicals and fuel. Fixed expenses or costs such as depreciation, taxes, insurance, and interest on intermediate-term and long-term debt are relatively constant regardless of the level of production so they are not included in operating expenses. See fixed costs.

Operating income

Income produced by earning assets and fees for services rendered.

Operating lease

A lease in which the lessee obtains temporary use of an asset but substantially all risks and rewards incident to ownership are not transferred. See financial lease.

Operating margin

Gross margin minus operating expenses, and, in the case of credit unions, minus mandatory fund transfers.

Operating ratio

Ratio of total operating costs (including depreciation) divided by operating revenue. Used to evaluate a corporation's operations, usually relate to sales, profits, and/or turnover.

Operating statement

Itemization of business income and expenses over a given period of time.

Opportunity cost of funds

The cost of the alternative use of funds. Represents the income foregone when the funds are used for one use rather than another.

Osusu

Name used for ROSCA in the Gambia.

Outstanding balance

Amount owed on a debt.

Overdraft banking or checking

A banking procedure in which the bank establishes a credit line permitting a borrower to write checks or drafts for more than the account balance, with interest charged on amounts borrowed.

Overdue loan; Pastdue loan

A loan which has past its due date.

Paluwagen

Name given to a ROSCA in the Philippines.

Parallel market

1) Market operating in parallel to the main money market (e.g., bank current and savings accounts) and including interbank loans and negotiable certificates of deposit. 2) Foreign exchange markets in which the exchange note is not subject to official controls.

Participating banks or financial intermediaries (PFIs)

Institutions that participate in special projects by making loans to project beneficiaries according to established terms and conditions.

Partnership

Two or more people involved in the ownership and control of a business.

Pasanakus

Name given to a ROSCA in Bolivia.

Passbook

Book issued to members of a credit union or depositors in a bank which serves as a statement of account showing all transactions made.

Patronage capital

Member's investment in a cooperative as a direct result of patronage.

Patronage refund

The surplus, or savings, or earnings, or profits from a cooperative that is returned in one form or another to members and/or customers that created them, in proportion to the volume of business conducted with the cooperative.

Pawn

A pledge of property (usually moveable personal property) as security for a loan. See pawnshops and land pawning.

Pawnbroker

A person who operates a pawnshop.

Pawnee

A person or firm that accepts a pawn in exchange for a loan.

Pawner or Pawnor

A person who pawns an asset to obtain a loan.

Pawnshops

Businesses that advance loans to individuals who deposit as collateral physical assets including jewellery, electronic goods, and other common durables. The collateral is sold if the borrower does not repay the loan by the redemption deadline.

Payment

1) Transfer of money from one party to another with the assent or agreement of both parties. 2) Total sum of money borrowed, plus all finance charges, divided by number of months in term of loan. 3) Act of paying money against a debt.

Payment in kind

Paying an obligation with a good rather than cash, such as repaying a loan in a specified quantity of a farm commodity or number of days of labour services supplied.

Peer group pressure

Encouragement that members of a group provide for each other so that certain types of social behaviour are observed, such as repaying a loan when it is due. See group lending.

Penalty interest

Additional interest charged on a loan that is past due.

People's bank

A form of rural bank in Sri Lanka that offers pawn-broking facilities as a means to achieve large-scale rural lending.

Personal finance company

A business that lends small sums of money to people usually at high interest rates.

Personal loan

A loan obtained by individual borrowers in small amounts to consolidate bills, or pay tax, insurance premiums or hospital bills.

Personal property

Any real or financial asset other than land or buildings.

Pledge

Delivery of personal property as a security for debt, being redeemable on specified terms and subject to sale in the event of default. See pawn.

Points

A unit of measure of a rate or an index number. For example, two points means two percentage points or two percent of the loan principal. Term often used to explain the amount charged for loan closing. See loan closing costs.

Ponzi scheme

Get rich schemes named after Carlo Ponzi that promise to enrich the participants by paying an extraordinary large return. They involve obtaining increasingly large amounts of funds from depositors/investors to repay old loans at high interest rates rather than to invest in productive activities.

Portfolio

1) List, distribution, or grouping of income earning securities, loans, or accounts of a financial institution. 2) Entire liability of an insurer for in-force policies or outstanding losses or both.

Portfolio composition

A combination of investments or assets held by an investor to meet investment goals.

Portfolio diversification

The process of reducing risk by holding a combination of financial assets whose returns are not expected to be perfectly correlated.

Portfolio management

Creation and maintenance of an optimal combination of investments to meet specific goals. Involves an analysis of the risks and returns of alternate investments.

Portfolio segment analysis

Systematic procedure to analyze the portion of the portfolio of a financial institution that is related to a specific program or project targeted for a group of borrowers.

Postal savings

Savings accounts offered through the post office. Monies may be paid in at any time but advance notice may be required for withdrawals. The interest rates paid are often fairly low.

Premium

1) Price paid for insurance protection or services for a specified period. 2) Amount paid, often in addition to interest, to secure a loan. 3) Something offered free or at a reduced price (prize or bounty) as an incentive to save or purchase. 4) The amount above list price.

Prepayment

1) Any expense paid in advance, sometimes in the form of premiums, dues, or contributions. 2) Payment of a debt or portion of a debt before it becomes due.

Prepayment clause

Clause in a loan contract that explains the conditions under which a borrower can prepay a loan.

Present value

The value of an asset that is determined by discounting its expected future receipts and expenses. See net present value.

Price control

Limits, usually an upper limit, placed on prices by a government or regulatory body.

Price earnings ratio

A measure of the relative price of corporate shares calculated by dividing net earnings per share by the current market price of the shares.

Price inefficiency

Using a combination of inputs in the production process that is not the least cost combination given the input prices.

Price risks

The risk of losses due to unpredicted price changes.

Price support

Subsidy or financial aid provided to producers, especially farmers.

Primary market

The market where new issues of securities are sold to investment banks and investors.

Prime borrower; Premier borrower; High quality borrower; Top grade borrower

The most creditworthy type of borrower.

Prime rate

The interest rate granted to the individuals or firms with the best credit rating. The rate charged by banks to preferential customers.

Principal

Original amount of a deposit or loan on which interest is earned or paid.

Private banks

Banks that are not state-owned.

Private voluntary organizations (PVOs)

Organizations operated by unpaid volunteers that engage in developmental activities. Many engage in savings and credit programs by organizing savings clubs and other self-help groups or by linking borrowers with formal financial institutions.

Producer cooperative

Cooperative owned and operated by a group of producers working either separately or together for the purpose of aiding production and marketing.

Production credit

Loans given for productive purposes rather than consumption on the assumption that the probability of repayment will be higher.

Profit

Financial gains retained after a transaction; amount left over after all costs, direct and indirect, have been met.

Profit and loss statement

See income statement.

Profit sharing

Bonus or a portion of the earnings of a business paid to employees designed to increase earnings by giving employees greater desire to produce, sell and be efficient.

Promissory note

An unconditional promise in writing made by one person to another signed by the maker, promising to pay, on demand or at a fixed or determinable future time, a sum of money to or to the order of a specified person or to bearer.

Proprietorship

Ownership of a business.

Provision

An amount charged against profits to recognize the possible decline in the value of an asset, such as a doubtful loan or depreciation.

Provision for bad or doubtful debts or for loan loss

A provision or a reserve established by a financial institution against possible future losses in its banking operations due to uncollectible amounts of loans.

Prudential regulation and supervision

Regulating and inspecting financial institutions so they are operated in a careful and judicious manner.

Purchase order

A form used to place an order with a supplier.

Purchasing cooperative

Cooperative through which both production supplies and consumption goods are acquired.

Purchasing power risk

Uncertainty about future inflation and its effect on reducing the purchasing power of income and assets.

Quick ratio, Acid test

The value of cash, marketable securities, and accounts receivable divided by current liabilities.

Quota

A proportionate share or part, such as when a bank is required to lend a specified share of its total loans to farmers.

RACAs

See Regional Agricultural Credit Associations.

Raiffeisen

Friedrick W. Raiffeisen, the founder of the Heddesdorf Credit Union in Heddesdorf, Prussia, in 1864, considered to be the founder of rural credit unions.

Rate cap or floor

The maximum or minimum interest rate permitted on a variable rate loan.

Rate of interest

Payment for the use of borrowed money expressed as a percent.

Rate of return

Yield obtained from an asset or investment expressed as a percent of the amount invested.

Rating

Using information to determine the creditworthiness of a potential borrower or customer.

Ratio analysis

Method of analysis which uses the relationship of figures found in financial statements to determine values, evaluate risks, and identify trends in the operation of businesses and organizations.

Ration

Any method used to restrict purchases or the amount of loan given when the quantity demanded exceeds the quantity supplied at any given price.

Real estate loan

Loan secured by real estate, regardless of purpose.

Real estate or property

Land and developments.

Real interest rate

Interest rates that are adjusted for decreases in purchasing power due to inflation. Often calculated as the nominal rate less the rate of inflation, divided by one plus the rate of inflation.

Rebate

1) Return of unearned interest to the borrower if the loan is repaid before designated due date. 2) Payment made to a consumer after a purchase is completed to induce the purchase.

Reciprocity

The practice of tying of loans to deposits, or the lending of one person to another with the understanding that the lender may need to borrow at a later date.

Recovery

Collection of payments from borrowers, both loans due and loans previously written off as bad debts.

Rediscount

Resale of instruments such as banker's acceptances already discounted by lender, usually with central bank or discount house, at a price less than face value. Often used as a synonym for discount.

Refinance

1) Substitution of a new loan for an old one. 2) Revise, renew, or reorganize existing debt by incurring and incorporating or covering new debt.

Refund

1) Portion of a finance charge returned to a borrower for paying off a loan before maturity. 2) Return of payment for unsatisfactory or damaged goods or services.

Regional Agricultural Credit Associations (RACAs)

Regional organizations of banks, central banks and other organizations created with the assistance of FAO.

Registrar

Public officer whose duty it is to maintain a register, such as of cooperatives or credit unions.

Regulation

A rule or order having the force of law that is issued by a government agency to control or modify the behaviour and decisions of persons or firms.

Regulatory risk

The possibility that a regulatory agency will change rules and regulations that will make an economic undertaking less profitable.

Re-lending

An operation whereby, when a domestic debtor repays a foreign debt, the funds are relent by the foreign creditor to a second debtor within the same country.

Renegotiate

To legally revise the terms of a contract.

Renewal

The act of or process of transforming or extending a credit agreement, whereby the old debt is cancelled by the establishment of a new one.

Rent

1) Payment for the use of property. 2) Temporary transfer of use rights to property in exchange for a payment stated in cash or in kind.

Rent-seeking

Economic activity often associated with negative social impacts in which inputs produce no increase in output. Often associated with governmental intervention in the productive process, such as in regulation, granting of exclusive licenses, the enactment of laws under which productive processes can be affected through litigation.

Repayment capacity

The projected ability of a business or firm to repay debt on a timely basis.

Repayment index

Statistical measure proposed to analyze and monitor loan repayment.

Repayment performance

The extent to which a borrower or group of borrowers has fulfilled loan contracts by paying according to the terms established at the time the loans were made.

Repayment period

The period established for repayment of a loan.

Repayment risk

Chance that a borrower will not repay an obligation as promised.

Repossession

The act of reclaiming or resuming possession of durable goods purchased on credit for which payment is past due.

Rescheduling of loans

A revision in the repayment schedule of a loan usually designed to give the borrower more time to repay the unpaid balance.

Reserve

1) Amount set aside from net savings to be permanently kept in a business. 2) Deposit maintained by a credit union or financial institution as required by a regulatory authority. 3) Money or assets allocated to various accounts to protect against depreciation in asset values or bad debt losses.

Reserve money

Currency in circulation plus deposits (of banks and other residents but not the government) with the monetary authorities.

Reserve requirements

The amount of money that a financial institution must hold in cash or in a designated institution in reserve as protection against its deposit liabilities.

Restructured loan

Loan amended to incorporate economic or legal concessions to borrower.

Retail banking

Banking services offered to the general public.

Retail cooperative

Consumer or worker cooperative engaged in retailing goods or services.

Retained earnings

See retained savings.

Retained patronage refund

Non-cash allocations of net savings disclosed to patrons in written notices of allocation, usually later redeemed in cash.

Retained savings

Funds from net savings held in cooperatives for use in their operations.

Return of surplus to members

Allocation of surplus or savings, if any, arising from the operations of a cooperative by decision of the members as follows: a) by provision for development of the business of the cooperative; b) by provision of common services; c) by distribution among the members in proportion to their transactions with the cooperative.

Return on assets

Net income divided by average earning assets (loans and investment).

Return on average net work

Net income as a percentage of the paid-in share capital and accumulated earnings averaged for the current period and previous year.

Revolving account

Line of credit repeatedly usable up to a certain specified limit. See open account credit.

Revolving credit; Revolving line of credit; Rollover credit

Line of credit that can be borrowed against up to a stated credit limit and into which repayments go for crediting.

Revolving fund or revolving funds capital

Funds held in a special account often provided by an outside source, such as a donor agency, for use in prescribed ways. Intended to renew itself by making and recovering loans.

Risk

1) The measurable possibility of future losses or returns. 2) The probability of losing or making money on an investment.

Risk-adjusted farm budget

A farm budget that is calculated to show the implications of variability in farm returns due to uncertainties of farm production and prices.

Risk adjusted interest rate

Interest rates that are adjusted or set to compensate for the riskiness of the investment.

Risk averse

An investor who seeks the investment offering the least risk for a given return.

Risk aversion

A dislike for risk.

Risk capital

See venture capital.

Risk diversification

Investing in various types of securities to reduce total risk exposure.

Risk-free (safe) investments

Investments that are considered to be default free, because they are an obligation of the government and have a short enough term to minimize the risks of inflation and interest rate changes.

Risk-free rate

A rate of return or yield that is free of risk.

Risk management

A general term covering a number of measures taken with respect to managing the risk to an investment on the part of the borrower and managing the risk of lending on the part of a bank. For a borrowing investor, measures will include certain physical precautions such as site selection, drainage, irrigation if appropriate and, sometimes, crop insurance. For a lender, measures include avoiding mismatches on funds acquired and funds applied, avoidance of concentration of portfolio and, in certain circumstances, recourse to guarantee funds and insurances.

Risk pooling

One of the basic functions of a financial system in which the risk of providing financial services to one customer is pooled or intermingled with those of other customers with the objective of reducing the overall risk to the institutions offering the services.

Risk premium

The additional return demanded by an investor to compensate for the risk of the investment.

Rochdale principles

Basic principles of cooperation developed from the practices of the Rochdale Society of Equitable Pioneers, such as open membership, democratic control, education, limited return on investment, distribution of economic savings, cooperation between cooperatives, nonpartisanship, honest business practices, and the ultimate goal of advancement of the common good.

Rotating savings and credit associations (ROSCAs)

A group of persons who agree to make periodic savings payments into a fund. The fund is allocated to one member of the group each time the savings are collected. The rotation continues until all members of the group have received loans.

Run

Demand for their deposits by many depositors at once.

Rural banks or unit rural banks

Small independent banks operating in rural areas owned by a few local stockholders (Philippines) or members of the local community (Ghana).

Rural financial institutions

Any type of financial intermediary that operates in rural areas.

Rural financial market

Relationships between buyers and sellers of financial assets who are active in rural economies. Transactions occur that include borrowing, lending and the transfer of ownership of financial assets.

Rural lending

Making loans to households and businesses that are located and/or are operated in rural areas of a country.

Safekeeping

A service offered by a person or financial institutions in which money or other valuable items are stored in a secure place.

Salvage value

Estimated value of an asset at the end of its useful life.

Sanction

1) Permission of a financial institution for a loan or overdraft. 2) A penalty or punishment.

Save

To economize; to refrain from consuming. Also refers to purchasing a debt instrument to be held in order to earn interest or profit.

Savings account

Fixed return investment offering comparatively low interest and high flexibility (funds can be added or withdrawn at any time), usually in a bank, savings and loan, or credit union.

Savings account loan

A loan secured by the pledging of savings funds on deposit.

Savings and loan associations or societies

Groups of persons who save together and the savings are used to make loans for specific purposes. Often they are urban oriented with the objective of making housing loans. See mutual savings banks.

Savings associations

Groups of persons who agree to make regular contributions of fixed or variable amounts to a group savings fund. At the end of a specified period, the members receive their deposits. The fund may be kept at the treasurer's home or deposited in a savings account in a financial institution.

Savings bank

Banking association whose primary purpose is to promote savings and thrift in a community. See mutual savings bank.

Savings clubs

See savings associations.

Savings mobilization

The process by which a financial institution actively seeks savings from the members or the general public.

Scale

The volume or amount of business or production as in economies or diseconomies of scale.

Schulze-Delitzsch

Hermann Schulze-Delitzsch, a founder of urban credit unions in Prussia at the time that Raiffeisen founded rural credit unions.

Seasonal covariance

Incomes of households or villages vary together so that there are limited opportunities for financial intermediation because they tend to have surpluses and deficits at the same time.

Seasonal credit

Credit offered for a season of the year such as credit for the growing season.

Second mortgage

Mortgage on real estate that already has a first mortgage or prior claim against it by a creditor.

Secondary market

Market for buying and selling previously issued securities such as a stock market.

Secondary mortgage market

An informally constituted market that includes the buying, selling, and trading of mortgages among originators and the purchases of whole loans or interests in blocks of loans.

Sector adjustment loan

A loan aimed at encouraging and supporting major policy improvements in a sector, frequently made by the World Bank.

Secured creditor

Lender who has collateral or security that can be liquidated in the event of loan default.

Security

Something of value pledged to assure the repayment of a loan and subject to seizure upon loan default.

Security deposit

The pledge of property by a debtor that makes loan repayment or contract enforcement more certain.

Segment; Sector (of the market)

A particular part of the economy or the market such as small business, agriculture, or electronics.

Segmentation

A marketing strategy aimed at identifying desirable customers and granting them favours to secure their business.

Segmented

Used in relation to markets which are separated or stratified.

Self-amortizing or fully amortized mortgage

A mortgage with repayment schedule in which the last payment exactly completes the last payment on the debt.

Self-financing

The process in which a household or business uses its own resources and savings to finance its operations and investments rather than borrowing from others.

Self-help groups (SHGs)

An association whose members agree to work together for a common objective. Donors and governments organize SHGs as a means to stimulate development. Savings mobilization is an objective of many groups.

Self-liquidating credit or loan

Credit repaid by the income earned from the operation or activity for which it was lent.

Self-regulation

The issuance of codes of ethics and other cooperative arrangements in which businesses and organizations police themselves for purpose of achieving high standards of operation.

Semi-formal finance

Financial arrangements that fall into the grey area between informal and formal finance. They may be partly regulated or supervised by a government agency, but less regulated than the formal financial institutions that fall under the regulatory framework of central banks and superintendencies of banks.

Senior creditor or debt

Debt for which the creditors' claims on the assets of the borrower rank ahead of other debts in case of liquidation.

Service charge or fee

1) Fee charged for a specified service. 2) A fee in addition to or instead of interest for charge accounts used in multiple installment retail loans.

Share

1) A person's portion of anything owned in common. 2) The fractional part of the capital of a corporation owned by a shareholder. 3) A given amount of money a person deposits with a credit union to become a member which confers ownership rights, has a stated par value and pays dividends if earned.

Share account

Account not requiring the holder to maintain a minimum balance greater than par value of a share or to give notice of intent to withdraw.

Share capital

Money derived from the purchase of shares or memberships.

Share interest

Interest paid on the ownership of shares in a corporation; limited in most cooperatives in keeping with the Rochdale principle of limited return on investment.

Shareholder

See stockholder.

Shayl; Sheil

A financial arrangement in the Sudan in which a merchant-lender extends credit as an advance in money or kind against the next crop.

Short-term debt or loans

Loans made for a short duration, often for the length of a cropping season and usually one year or less in term.

Simple interest

Method of calculating interest on the outstanding balance of a loan that produces a declining finance charge with each payment of the installment loan because interest is calculated on the declining loan principal rather than the original loan amount. See compound interest.

Single lump sum credit

Closed-end credit arrangement where the total outstanding balance is due on a specified date.

Soft loan

A loan made on terms lower than or more favourable to the borrower than regular commercial terms.

Soft terms

Conditions for a loan that are more favourable to the borrower than the regular commercial conditions that would apply for that particular borrower or type of loan.

Solidarity groups

A group of persons, often only three or four, who join together to form a borrowing group. The group receives one loan and distributes it among the members. If one member defaults, the other group members pay the delinquent portion and seek recovery directly from the delinquent member. If the group fails to repay on time, it is denied future loans. Initial loan amounts tend to be small and rise with subsequent loans so borrowers have an incentive to repay and maintain a good credit history. This method of lending is used by the Grameen Bank in Bangladesh and ACCION International programs in Latin America.

Solvency

State of being able to meet obligations as they become due.

Specialized financial institutions

Institutions that provide only one financial service, such as loans. See development finance institutions.

Speculation

1) Assuming a business risk in hopes of making a gain. 2) Purchasing and holding commodities for resale.

Speculative motive

Desire of households and businesses to hold part of their assets in liquid form so they can undertake investments at higher returns when interest rates rise.

Spot market

Commodity markets in which goods are sold for cash and delivered immediately.

Spread

Difference between the yields on securities of the same quality but different maturities. See interest rate spread.

Statement or statement of account

A periodic account mailed to charge/current account customers which shows the purchases made on credit, cheques issued, cash withdrawals made, and payments received since the last statement.

Stock

1) The proportional part of a corporation's capital credited to stockholder and represented by the number of shares the stockholder owns. 2) Inventory of goods that a business has on hand.

Stock certificate

Documentation of ownership of a company's shares, indicating the number of shares registered in the name of the owner, issuing corporation, and whether the stock has a par value or non-par value.

Stockholder

Legal owner of at least one share or stock in a corporation.

Stockholder's equity; Shareholder's equity; Owner's equity; Equity; Net worth; Shareholders' funds

The value of the assets less the value of the liabilities of a corporation; the stockholder's investment in the firm.

Stop order

An order issued by a competent authority to prevent some act, such as notice by a bank customer to stop payment on a check.

Store of value

One quality of money that makes it valuable as an asset because it can be used to transfer purchasing power from the present into the future.

Sub-borrower

A smaller loan which is a part of a larger loan, often one provided for on-lending.

Sub-contracting

A method of production in which one firm, often a small one, agrees to produce a good or provide a service for another firm. It is a source of credit when the larger firm supplies the smaller firm with the raw materials used to produce the ordered goods.

Sub-loan

A loan that has been on-lent.

Subsidized interest rate

An interest rate charged on a loan that does not cover its full cost.

Subsidized or cheap credit

Loans made available to borrowers on terms and conditions that do not cover the cost of making and recovering them.

Subsidy

Government support to a person, household, business, industry or sector to encourage the development of productive activities that are inadequately supported through commercially available goods and services. May also be designed to augment the consumption of particular households. Subsidies often fail to meet their objectives because they end up favouring the politically powerful rather than the persons intended.

Supervised credit

Loans in which the lender monitors the use of funds and attempts to influence the borrower to follow certain practices.

Supervision

The process of overseeing activities and organizations, such as the central bank supervision of financial institutions.

Supplier credit or finance

A form of credit in which a manufacturer or supplier allows a dealer several weeks or months to pay for goods received. The dealers in turn may provide similar credit to sub-dealers who extend credit to retailers. The final consumers of the goods used for production or consumption may then be able to purchase them on credit to be paid later in single or multiple payments.

Supply cooperative

Cooperatives that allow members to pool their resources to buy input supplies, including seed, fertilizer, petroleum products, equipment, and other requirements for their farm businesses. Quantity purchasing is intended to realize savings and assure quality for the members.

Supply-leading finance

An attempt to stimulate economic growth by creating financial services in advance of the demand for them.

Supply-led credit

An approach to development in which the expansion of credit supplies, often at subsidized rates, is expected to accelerate the growth of the economy. See supply-leading finance.

Sustainable

Something that can continue into the foreseeable future in its current method of operation.

Susu

Name given for ROSCAs in some African countries.

Swap

A colloquial expression meaning the barter or exchange of something. Used now in debt-swap agreements.

Targeted; Targetting

The process of identifying specific types of borrowers to receive loans such, as small farmers, micro-enterprises and women, often at subsidized or special terms.

Target population

Members of the population selected for special information, programs and policies. See targeted.

Targeted loans

Loans made to the target population.

Tebasab

A method similar to Ijon in Indonesia in which a farmer obtains loans from traders selling a standing crop three to ten days before harvest. The trader conducts the harvest with a team of hired labourers.

Technical inefficiency

Producing less than the maximum amount possible with the amount of resources used in production.

Term deposits

Deposits which are repayable after a pre-determined time period.

Term finance

Equity or medium- and long-term loan finance.

Term loan

Long-term loan that may have a maturity of 10-30 years.

Terms

See Lending conditions.

Term transformation

The use of funds from short-term deposits to make long-term loans.

Three C's of credit

Character, capacity and collateral as used in loan analysis.

Thrift institution

General term for mutual savings banks, savings and loan associations, and credit unions in which an important objective is to stimulate the savings habit.

Time deposit

Deposits with a financial institution that are not withdrawable unless the stated time or notice requirements are met.

Title

A legal document giving the holder legal ownership of property.

Tontines

Name given to ROSCAs in several French-speaking African countries.

Trade credit

Open account arrangements with suppliers of goods or services. See supplier credit.

Trade finance

The financing of imports and exports.

Tranche

Sub-unit, slice or installment of the whole, such as an installment of a large loan.

Transaction costs

Costs arising from the transfer of ownership or of property rights, such as in making and recovering a loan, including explicit costs and the input of time required for the transaction.

Trust funds

A fund designated for a specific purpose and not to be used for any other purpose.

Turnover

The rate at which stock or merchandise is sold over a specific period of time such as a week, month or year.

Unbankable

Persons, households or firms that are not considered creditworthy by commercially-oriented financial intermediaries.

Underbanked

An area or region that has less banking services than considered socially desirable.

Unencumbered property

Real estate free and clear of any mortgages, liens or debts.

Unit bank

A bank with only one place of business.

Universal bank(ing)

Bank providing the full range of banking services.

Unsecured credit or loan

A loan for which no collateral is given to back up the loan in the event of default. Based only on the borrower's creditworthiness.

Useful life

The period during which a depreciable asset is expected to be used by a firm.

Usury

The practice of charging interest rates that are considered to be excessively high for the costs and risks involved in lending. The interest rates may be illegal if usuary laws are in effect.

Usury laws

Laws that stipulate the maximum interest rates that can be charged on different types of loans.

Usufruct

The right to use the property of another person for profit. Also relates to land tenure system where individual 'ownership' as such does not exist. Right to land is determined by ability to use it productively.

Usufruct loans

Another term given to land pawning.

Variable costs

Costs of production that vary with the volume of output.

Variable interest rate

Interest rate which may from time to time be changed by the lender to reflect market conditions.

Variable rate loan; Adjustable rate mortgage; Variable rate mortgage

Loans having interest rates that vary with the lender's cost of funds or some money market index.

Venture capital

Money raised for high risk investments for investors who choose to invest in risky projects. Usually the investors can not obtain financing from regular financial institutions because their projects are considered to be too risky.

Vertical integration

Combining under one business or management the various stages or steps in the process of production, beginning with input supplies to selling the output.

Viable, Viability

Capable of maintaining independent existence. A concern for financial institutions who cannot operate without large subsidies.

Village banks

Small unit banks being developed in some countries, often inspired by NGO or donor programs. Generally they are not licensed and fall outside the regulatory structure for banks. Deposits are mobilized locally and lent to local residents. In some cases, donor funds augment the locally mobilized funds.

Village rice banks

See community insurance.

Warehouse financing

A method of financing inventories in which the goods stored are used as collateral for loans. A trustee or warehouseman releases the goods as they are sold and transmits the proceeds to the lender for payment against the loan. The warehouse may be located on the premises of the borrower or a third party agent.

Warehouse receipts

A certificate prepared by a bonded warehouse stating that certain goods are stored in the warehouse. A non-negotiable receipt means that only the depositor of the goods may claim them, while the bearer of a negotiable warehouse receipt may claim them. Can be used as collateral for loans.

Wholesale banking

Banking services provided to the largest business customers. Also refers to loans made to one borrower, such as a trader, with the agreement that the borrower would make smaller retail loans to his customers, such as farmers who produce the desired commodity.

Working capital

The amount of funds required to finance the day-to-day operations of a firm. It is usually represented by the excess of current assets over current liabilities.

Working capital loan

A short-term loan to purchase income-generating assets such as inventory.

Write off; Charge off

When an asset or loan is recognized as worthless, it is removed from the books of the corporation or financial institution and a corresponding loss is recognized in the firm's capital. The loss is offset by reserves if appropriate loan loss provisioning has been done.

Yield

The rate of earnings on an investment usually expressed as an annual percent rate.

Yield to maturity

The internal rate of return earned on a bond held to its maturity.